



**AMERIA**  
MANAGEMENT ADVISORY



# **GLOBAL ENTREPRENEURSHIP MONITOR: ARMENIA NATIONAL REPORT 2019/2020**



Global Entrepreneurship Monitor 2019/ 2020 Report on Armenia

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## FOREWARD FROM THE MINISTER OF ECONOMY OF THE RA



**Mr. TIGRAN KHACHATRYAN**

**I**t is the first time Armenia is included in the worldwide Global Entrepreneurship Monitor and I want to emphasize that this happened at a turning point for Armenian entrepreneurial climate. A peaceful revolution in 2018 brought to the cabinet a new government with strong message of economic freedom, competition and democracy. I believe that it laid a strong foundation for optimism and emerging of entrepreneurial capacity embedded in the population of our country. The policy priority was to improve competition in the economy and prevent any preferences to large companies.

I am delighted to see proof of my belief in this latest Global Entrepreneurship Monitor Report according to which one out of each five adults in Armenia are engaged in early-stage entrepreneurship which is the 7th highest indicator among 50 GEM countries. Value system towards entrepreneurship in Armenia is more favorable compared to the world's average perception putting us 4th out of 50 GEM Countries and we can witness growing number of startups.

The Government of Armenia recognizes entrepreneurship as a main pillar for job creation and sustainable economic growth. But we are facing the reality when Armenia's entrepreneurship has one of the lowest levels of productivity and is concentrated mostly in trade and agriculture. The potential for growth is majorly restricted by low productivity thus policy effort should be concentrated on supporting and promoting business activity based on knowledge, technological upgrading and innovation.

The Government of Armenia has declared building a knowledge-based economy as its long-term strategic objective which is articulated in our strategic documents through upgrading the link between education and research and business, improving access to markets, directly supporting innovation.

The lifecycle of our business entities is short, and we emphasize the need for supporting of scaling up processes of Armenian enterprises. The relatively small size of the local market and tough geographical and geopolitical conditions – the country is landlocked and faces border restrictions – is a huge challenge for Armenian enterprises. Our policy puts an effort on improving trade relationships with potential partners and at the same time creating enabling environment for exporting service industries.

At this point of time Armenia as any country of the world is facing unprecedented difficulties in the process of managing the spread and effects of the COVID 19 pandemic. This report will help the Government of Armenia in planning economic recovery by further enhancement of the entrepreneurial ecosystem. In the post-crisis period maximization of the entrepreneurial potential of all Armenian people will help us build resilience and get back on track of sustainable growth.

I seize the opportunity to thank the authors of this report for the excellent and valuable work.



*Note from the partner, director of America  
management advisory services  
Team leader of the GEM Armenia national team*

*Tigran Jrbashyan, Ph.D.*



**I**t is my great honor to welcome you to the pages of the First Edition of the GEM Armenia National Report.

Armenia is historically considered to be a nation of individual entrepreneurs, phenomenon inherited from our predecessors. It is believed that those inborn entrepreneurial skills allows Armenians to generate value by creating or expanding economic activities aimed at identifying and exploiting new products, processes or markets. However, such beliefs have never been properly tested to reveal the real picture behind those traditional interpretations. Armenian Government in power after the 2018 Velvet Revolution considers entrepreneurial activities pivotal for ensuring vibrant private sector and perceives those as main drivers for achieving accelerated and inclusive economic development, attracting new investments and improving productivity. Competitive and innovative SMEs are targeted for extensive special support, as those are important for achieving sustainable development in post COVID 19 world and creating middle class in the country. Further development and promotion of entrepreneurial culture, establishment of more favorable legislative and institutional frameworks and support for the development of SME's internal capacities are also on the Government's development agenda. Considering the above, the expansion of the high quality and evidence based Global Entrepreneurship Monitor (GEM) study in 2019 to cover Armenia as well is important for understanding the current state of entrepreneurship ecosystem, revealing existing issues, developing targeted policies and strategies

and continuously monitoring the short- and long-term impacts of changes.

In the pages that follow, you will read about the hypothesis made by the Armenia National Team before implementing the first GEM study in pre-COVID year of 2019. Then, the analysis of entrepreneurship context in the country, social and cultural foundations of entrepreneurship, level of entrepreneurship, motivations and aspirations of the Armenian entrepreneurs and perceptions while exiting the business are presented. It worth to mention that the study shows high level of entrepreneurship in Armenia, when one out of each five adults are engaged in early-stage entrepreneurship (7<sup>th</sup> among 50 GEM countries) and 28% of population is engaged in any early-stage or established business (6<sup>th</sup> among 50 GEM). This to some extent is reflection of changes occurred in Government policies following 2018 Velvet Revolution, which brought more optimism to the future developments in the country among different segments of the population. At the same time study shows need for actions in such areas as entrepreneurial education, R&D transfer, Government entrepreneurial programs and entrepreneurial finance. These areas need to be strengthened the most to foster entrepreneurship activity in the country.

We, at America cjsc Management Advisory Services are extremely proud to be a National Team of the GEM. We appreciate this exciting opportunity to contribute to the entrepreneurship development in Armenia and hope to continue implementing this important economic, national and academic research. We consider implementation of GEM 2020 round much more important taking into account the COVID-19 situation and its impact on the economy and entrepreneurship.



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# Abbreviations

AMD	Armenian Dram
Armstat	Statistical Committee of the Republic of Armenia
APS	Adult Population Survey
EAEU	Eurasian Economic Union
EEA	Entrepreneurial Employee Activity
EFC	Entrepreneurial Framework Conditions
EBO	Established Business Owner/Activity
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
ICT	Information and Communication Technologies
IMF	International Monetary Fund
ISIC rev4	International Standard Industrial Classification of All Economic Activities, Revision 4
NECI	National Entrepreneurship Context Index
NES	National Expert Survey
R&D	Research and Development
SDG	United Nations Sustainable Development Goals
TEA	Total early-stage Entrepreneurial Activity
UAE	United Arab Emirates
USA	United States of America
USD	United States Dollar

## Summary

Over the last 20 years, the Global Entrepreneurship Monitor (GEM) systematically and consistently measures entrepreneurship rate and its characteristics in different countries. During these years GEM surveyed over 2.9 million adults in 112 countries worldwide. First time in GEM history, Armenia is included in the study as one of the 50 countries in 2019 GEM. America CJSC is a national partner of GEM Consortium in Armenia responsible for implementing all activities under the study. The national report was prepared based on implementation of Adult population survey (APS) and National Expert Survey (NES) according to the GEM methodology.

Armenia has registered high level of entrepreneurship in 2019. One out of each five adults in Armenia are engaged in early-stage entrepreneurship which is the 7th highest indicator among 50 GEM. Moreover, 28% of population in Armenia is engaged in any business (including early-stage or established business), which is the 6th highest indicator among 50 GEM countries in 2019. High rates of entrepreneurship in Armenia can be explained by more favorable social and cultural values towards entrepreneurship in Armenia, but it is also supported by lack of opportunities to earn income especially outside of Yerevan. Another important explanation of large early-stage entrepreneurship indicator in 2019 is changes that took place in political system of Armenia during 2018, which brought more optimism to the future developments in the country among population.

The sectorial structure of entrepreneurship shows that Armenia's entrepreneurship has one of the lowest productivities compared to other countries. Unlike most of the countries in 2019 GEM, the sectorial structure of Armenian entrepreneurship is largely concentrated into two activities: agriculture and trade. Armenia has the highest share of agriculture in entrepreneurship compared to other GEM countries, the sector which has the lowest productivity among others, while Armenia is in bottom-10 countries by share of most productive Business services sector in entrepreneurship. Due to agriculture, the entrepreneurship rate in rural areas is even higher than in Yerevan. High rates of entrepreneurship in rural areas is a result of lack of other income opportunities in that areas. The lack of large opportunities for employment in rural and other urban settlements that Yerevan along with overall social-economic conditions also explain large share of motivation "to earn a living because jobs are scarce" to start a business in Armenia and one of the lowest share of motivation "to make a difference in the world".

Armenian entrepreneurs have quite similar profile compared to other countries with higher share of younger age groups and a bit higher rate of entrepreneurship



among men compared to women. However, as in many countries engagement of women in entrepreneurship is getting larger also in Armenia. More women in entrepreneurship means also changes in motivations to start a business as more women start a business with motivation “to make a difference in the world”, while men are more focused on motivations “to build a great wealth or income” and “to continue family traditions”. However, most of the women like men still start a business with motivation of “earning a living because jobs are scarce”. An important peculiarity of entrepreneurship in Armenia is large fear to fail to start a business. Perhaps, this can be explained by nature of business culture in Armenia, where business is frequently associated with owner’s identity. If a business is not successful it is accepted as personal failure.

While early-stage entrepreneurship is at high level in Armenia, level of established business is in average positions. This means that further development of entrepreneurship conditions in Armenia should focus more on providing better conditions to sustain a venture into an established business. Among main issues for further development of Armenian entrepreneurship conditions are: (i) Entrepreneurial education, (ii) R&D transfer and (iii) Government entrepreneurial programs and (iv) Entrepreneurial finance. The problem of entrepreneurial finance is important, but it is partially solved by large share of informal investments done, by close relatives and friends. While the experts noticed improvements in Government policy: taxes, bureaucracy component after “velvet revolution” (which was considered to be the main obstacle for development of entrepreneurship in Armenia for decades), there is a need for targeted government programs to support entrepreneurship as well as development and introduction of measures to provide entrepreneurial education to the population. There is also a need for facilitation of business exit and bankruptcy procedures as well as introduction of clear procedure for sale of businesses in legislation. The latter ones will also support the entrepreneurship in the country as will reduce the level of fear to fail among those who are ready to start a business.

## Main findings

### The Social and Cultural values towards Entrepreneurship

**Value system towards entrepreneurship in Armenia is more favorable compared to the world’s average perception.** Armenia is 4<sup>th</sup> out of 50 GEM countries and the leader among Eastern European region with the share of population who agreed to the statements on “starting a business is a desirable

career choice” (87.2% of adults), which is a good point for the country to develop entrepreneurship. The analysis shows that high-income countries have more opportunities of career choice as employee, while middle and low-income countries have to rely more on entrepreneurship. According to Armenians, the business in Armenia has more focus on solving social problems (4<sup>th</sup> out of 50 countries), which perhaps also contributes to peoples’ perception towards entrepreneurship, especially in a country with significant poverty rates. At the same time, even if 73.4% agrees that those starting a successful business have high status and respect, it is lower than world average (32<sup>nd</sup> out of 50). The statement on “status and respect for new businesses” is strongly correlated with the statement on “often see stories in the public media and/or internet about successful new businesses”. This means that media promotion of successful businesses contributes to increase in status and respect for businesses in the country and may promote development of a national entrepreneurial culture.

**Unlike value system indicators, Armenia is in average positions with indicators on social perception toward entrepreneurship.** Armenia’s indicators of “knowing someone who has started a business in the past 2 years”, “whether they see opportunities in next 6 months” and “whether it is easy to start a business” is in the middle range of indicators in GEM countries (20–24 positions out of 50). Anyway, there is an evidence of improving Social perception in Armenia when comparing to the countries in the region. The share of adults in Armenia who agreed with the statement “will be a good opportunity to start a business in next 6 months” is 53.9%. This perhaps is an evidence of “velvet revolution” in 2018 which brings some optimism to near future. Also it is interesting that population from regions sees more opportunities compared to Yerevan. It is interesting that there is only very weak correlation between World Bank “Ease of Doing Business” index and peoples’ perception on how easy is doing a business in their countries. This means that individual perception on ease of doing business is usually different than what is registered by World Bank’s index.

**Self-perception indicators towards entrepreneurship are contradictory.** While Armenians assess their knowledge, skills and experience quite high (12<sup>th</sup> out of 50 GEM countries), they are in top-10 with fear to fail. Fear from fail to start a business is very important factor as these people would not start a business. Among Eastern European countries Croats have very similar indicators with Armenians. More Armenians would not start a business because of fear to fail (51%), compared to Russia and Belarus (45% and 37%), even if they much more of them reported on having knowledge, skills and experience (70%) than Russians (36%) and Belarusians (42%). High level of fear to fail to start a business in Armenia, perhaps, can be explained by nature of business culture in Armenia. If





a business is not successful it is accepted as personal failure. This may be also a reason why capital market is not developed in Armenia and why we don't have large companies with many shareholders. The lack of clear legislation for easy business exit, bankruptcy procedures, sale of businesses are also supporting fear to start a business. The age group of 25–34 has less fear to fail compared to others, while they have the highest confidence on their skills, which means this would be the age group with highest share of entrepreneurs. The difference between “knowledge” and “fear to fail” is higher in Yerevan compared to rural communities.

**Even if Armenians consider themselves innovative** (8<sup>th</sup> out of 50 countries and 2<sup>nd</sup> out of 9 Eastern European countries), **they quite rarely see business opportunities** (11<sup>th</sup> out of 50 countries) **and their proactivity and vision is on average level among all 50 GEM countries.** The countries with over 80% of adults thinking that they are innovative (like Armenia) are Poland, Saudi Arabia, Israel, India, USA, Guatemala and Columbia. Around 65% of Armenians rarely act even if they spot a profitable business opportunity.

## Levels of Entrepreneurship

**The share of adults involved in any business in Armenia is 28.0% which is the 6<sup>th</sup> highest indicator in 50 GEM 2019 countries. Armenia registered high rate of early-stage entrepreneurial activity (TEA) in 2019.** With 21.0% of adults engaged in early-stage entrepreneurial activity, Armenia is 7<sup>th</sup> among 50 GEM 2019 countries and it the leader in Eastern European region. The share of Nascent entrepreneurs in Armenia was 14.0% and Baby businesses – 7.4%. Armenia is on the 5<sup>th</sup> position by indicator of Nascent entrepreneurs and 10<sup>th</sup> – by Baby Business indicator. These numbers indicate that entrepreneurship was activated in early 2019 in Armenia.

Even if Armenia is in Top-10 countries by TEA for both gender groups (4<sup>th</sup> for male and 9<sup>th</sup> for female), comparison shows that in Armenia female engagement in entrepreneurship compared to male is lower than world average. Another interesting result is that population from rural communities are more active in TEA even compared to Yerevan. This is explained by engagement in agriculture, and the fact that there are much less opportunities to be employed in rural communities.

**While Armenia is among the leaders in 50 GEM countries with TEA, the country is in average positions with EBO indicator (23<sup>rd</sup> out of 50 countries).** This may mean that there are comparably more issues and challenges for early-stage entrepreneurs in Armenia to transform their business into a sustainable business.

**Armenia entrepreneurship is concentrated largely in Extractive sector (due to Agriculture) and Consumer services (due to retail trade).** Around 83% of EBO and 63% of TEA in Armenia are engaged in agriculture or trade. The sectorial distribution of TEA shows some changes against EBO structure. Even if Agriculture and Trade are still dominating, but their overall share is less by 20 percentage points. Manufacturing share is higher by 2 percentage point, but larger increase in share is visible for service sectors and especially for Accommodation and food services (supported by tourism activities), Information and communication sector and other personal services. Business services sector (ICT and professional services) has the smallest share in Armenian entrepreneurship, but it shows the largest growth trends. The analysis shows the higher the income of entrepreneurs the lower is the share of Extractive sector in entrepreneurship.

**Younger entrepreneurs are more engaged in trade, while older ones – in agriculture.** Less entrepreneurs from young age groups start business in extractive sector compared to established business, which means the share of extractive sector will decline in Armenian entrepreneurship in next years. Correspondingly the share of engagement in Consumer services (retail trade mainly) is increasing with age decrease (around 50% of entrepreneurs between 18–34 age are engaged in Consumer service sector).

**Only 0.6% of adults in Armenia are engaged in employee entrepreneurial activities (EEA) – 39<sup>th</sup> position out of 50.** Low level of Entrepreneurial Employee Activity (EEA) in Armenia speaks about issues with transfer of R&D and innovation in large companies in the country, which affects their competitiveness outside of the country at least. The level of EEA in Armenia is close to other countries in Eurasian Economic Union, but it is significantly lower compared to developed countries.

## Motivation and Aspiration

**The necessity-driven motivation “to earn a living because jobs are scarce” has the largest share for Armenian entrepreneurs both in early-stage and established stage, while the purpose-driven motivation “to make a difference in the world” has one of the lowest shares in Armenia compared to other countries in the world.** Armenia is in top-10 countries with motivation “to earn a living because jobs are scarce” among all 50 GEM countries and is the first among 9 Eastern European countries. More new businesses are motivated by “make difference in the world”, compared to established businesses and more new businesses are motivated by “building wealth or high income”. This may be also explained by increase in share of Business services sector. A composite description of Armenian entrepreneur with the highest motivation “to make



a difference in the world” is the following: a female from 18–24 age group with bachelor degree and from household with the highest income per capita (AMD100K+), who is from Yerevan.

**It is expected that new businesses will create more jobs compared to established ones in 5 years.** Relying on median value of expectations each TEA will create 2 more jobs, while each EBO – 1 more job in 5-year period. The largest growth is expected in Business services sector.

**Armenian early-stage entrepreneurs are more export orientated, than Established Businesses.** The share of businesses expecting more over 25% of revenues from abroad is correspondingly 20.3% vs 17.1%). This difference perhaps shows that new business owners expect to use market opportunities in EAEU.

**Armenia is in the middle level between 50 GEM countries with the share of product innovation in TEAs (27<sup>th</sup> out of 50 countries), while is below average with the share of process/technology innovation in TEAs (36<sup>th</sup> out of 50 countries).** Around 28.8% of all TEAs (or 6.0% of population) in Armenia reported that they have product innovation. Technology or process innovation in Armenian TEAs is lower compared to product innovation. Around 22.2% of all TEAs (or 4.7% of population) in Armenia reported that they have technology/process innovation. Lower technology/process innovation is explained by low opportunities for investments. However, motivations are linked to the level of innovation: those who start a business with motivation “to change the world” have more product and process innovations compared to people with other motivations.

## Informal investments and Business Exits

**The role of informal investments for starting a new business in Armenia is high compared to most of the countries.** Armenia is on the 14<sup>th</sup> position among 50 countries in 2019 GEM APS and is the leader among 9 Eastern European countries with the share of population that provided funds for a new business started by someone else. Around 7.9% of population within 18–64 age group in Armenia mentioned that they personally provided funds for a new business started by someone else within past 3 years. High level of informal investments could be influenced by social and cultural values, but overall it is an evidence of harder access to finance for new businesses in Armenia compared to other countries in average.

**The rate of business continuation after exit in 2019 for Armenia is quite positive.** Due to higher level of entrepreneurial activity, Armenia has 13<sup>th</sup> highest indicator of business exits among other countries. However, one third of businesses in Armenia continued its activities after the exit of owner-manager in 2019, which is among average indicators of all 50 countries in 2019 GEM APS (22<sup>nd</sup> out of 50

indicators), and is the second highest in Eastern Europe region (after Croatia). Higher rates of business continuation after exits is more common for developed countries. However, in 85% cases, business exits in 2019 in Armenia had negative reasons (such as fail, losses), which is among the worst indicators in 2019 GEM (41<sup>st</sup> out of 50). This perhaps show that there are still issues in national conditions that influence the development of entrepreneurship, but also may be explained by other issues, such as low skills and entrepreneurial education in the country.

## The Entrepreneurship Context

**Armenia with its score of Entrepreneurship Context is behind Latvia only, among 10 Eastern European countries available in 2019 GEM.** Armenia is ranked 27<sup>th</sup> among all 54 countries participating in 2019 GEM NES according to overall National Entrepreneurship Context Index (NECI). NECI is a composite index representing in one figure the weighted average state of the set of national Entrepreneurship Framework Conditions within GEM. Armenia has higher score compared to GEM average with 6 out of 12 components.

**The largest positive difference between Armenian and World indicators were for Government policy: taxes, bureaucracy (7th position out of 54) and Cultural, and social norms (11th out of 54).** While Cultural and social norms are perceived as usual advantage for Armenia for entrepreneurship, better assessment of Government policy conditions on taxes and bureaucracy seems quite surprising, as this condition was perceived as one of the main constraints of entrepreneurship in Armenia over the years. The change of perception noticed in 2019 is a result of political and economic changes of new government in Armenia. After a “velvet revolution”, the government declared that measures against corruption must be taken and tried to make governmental institutions more transparent. The expert’s average assessment for Government policy: taxes and bureaucracy was 5.42 out of 10, while GEM 54 countries’ average is 4.02.

**Armenia is behind GEM average by the following components of entrepreneurial activity: (i) Entrepreneurial education, (ii) R&D transfer and (iii) Government entrepreneurial programs and (iv) Entrepreneurial finance.** These areas need to be strengthened the most to foster entrepreneurship activity in the country.

**The further development of entrepreneurship conditions in Armenia should focus more on providing better conditions to sustain a venture into an established business.** The countries with highest NECI score have more balanced entrepreneurial activity level between new businesses and established businesses, while in Armenia the share of new businesses is much higher compared to established ones.






# Chapter I. Introduction

*“The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.”*

— **Peter F. Drucker**

## 1.1 An introduction to GEM

Economists and business gurus broadly define the term of entrepreneurship. Following the main idea of entrepreneurship, it is defined as aspiration of an individual, group of people or an established business to new business creation or new venture development. Entrepreneurs are often perceived as innovators or even pioneers of new production or services. Entrepreneurship is vital component in any economy in terms of incomes and jobs. While the path of development and the growth level of entrepreneurship, likewise its impact on economy are different in each country. Each economic system has its unique policy and leverage to support and encourage entrepreneurship in the country. Entrepreneurship should be measured and monitored to shape an appropriate policy and development path in each country. As each economy has unique features, the entrepreneurship challenges can differ in each economy. However, the challenges of entrepreneurship in any economy need to be addressed and be in line with international institutions, which are directed to support sustainable growth and development in economy. Particularly it is important for a country to develop proper policy for entrepreneurship to pursue to fulfil United Nations Sustainable Development Goals (SDGs). Particularly, development of entrepreneurship may support to achieve the following goals:

- ▶  SDG 1: End poverty in all its forms everywhere,
- ▶  SDG 8: Promote inclusive and sustainable economic growth, employment and decent work for all,
- ▶  SDG 10: Reduce inequality within and among countries.

Over the last 20 years GEM systematically and consistently measures entrepreneurship rate and its characteristics in different countries. GEM is non-profit social entrepreneurship founded by London Business School and Babson College in 1997. GEM consortium consists of national teams each using the same precise research methodology, sample design and survey tools to collect nationally representative data on entrepreneurship. The first GEM Global Report was published in 1999, since that time GEM surveyed over 2.9 million adults in 112 countries worldwide. Global report provides a comprehensive set of indicators on entrepreneurship to describe the entrepreneurial climate in each studied economy. The annual global reports are launched in the first quarter of next



year and posted on GEM official website<sup>1</sup>. The global report is then followed by National reports prepared by each national team focusing on their economy.

In March 2020, GEM published its 21st annual report. 2019/2020 GEM global report covers survey of 129,345 adults (age of 18–64) in 50 countries and 2,315 experts in 54 countries. First time in GEM history, Armenia is included in the study as one of the countries in 2019 GEM. Ameria CJSC is a national partner of GEM Consortium in Armenia responsible for implementing all activities under the study. Ameria CJSC is one of oldest and leading management advisory companies in Armenia founded in 1998. Ameria was responsible to conduct Adult population survey (APS) and National Expert Survey (NES) according to the GEM methodology as well as to prepare National report.

This report is 2019 GEM National report for Armenia. The report provides broad and comprehensive view on entrepreneurial sector developments and issues in Armenia. The analysis takes into account the comparison of observed indicators with other countries in 2019 GEM. Special focus in the report is made to the countries in the region. Particularly, Russia and Belarus from Eurasian Economic Union (EAEU)<sup>2</sup>, other Eastern European countries and Middle East countries, such as Iran, Jordan and Israel. It should be mentioned that Georgia, Turkey and Kazakhstan did not take part in 2019 GEM, but were presented in previous reports.

## 1.2 GEM Methodology

GEM developed appropriate methodology to measure entrepreneurship based on data collection by national teams in participating countries. The methodology is composed of two complementary tools: APS and NES.

### APS

While most surveys focus on enterprise data while measuring entrepreneurship, **GEM APS** focuses on individuals, assessing attitudes and perceptions towards entrepreneurship. This allows for a unique profile of entrepreneurship in society. Surveying individuals can also help to capture information on the “informal” economy, which is not captured by official statistics or other enterprise focused surveys. The size of informal economy is significant especially in small developing countries. Even though if currently Armenia is on the way to encourage informal activity to enter the formal economy, it has still quite significant role in national

<sup>1</sup> <https://www.gemconsortium.org/report>

<sup>2</sup> EAEU countries are Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russian Federation



economy. APS is a unique instrument designed to measure the level and characteristics of entrepreneurial activity in a country. The representative sample size of at least 2000 respondents is used in each country. This sampling size ensures statistical accuracy of +/- 2.2% (at 95% confidential level) for indicators at national level.

APS has specific questionnaire, which is composed by modules and blocks. There are about 100 questions divided into different blocks and modules. A 5-point Likert scale<sup>3</sup> questions were used in the questionnaire for questions to assess entrepreneurial attitudes, perceptions and motivations of respondents. Each block represents the different features of respondents. The following blocks are in the questionnaire:

1. INTRODUCTION: entire sample
2. BLOCK 1: nascent entrepreneurs
3. BLOCK 2: owner-managers
4. BLOCK 3: potential and discontinuing
5. BLOCK 4: informal investors
6. BLOCK 5: employment and entrepreneurial employee activity
7. BLOCK 6: demographics

## NES

APS provides detailed information about entrepreneurial activity in a given economy, but does not cover economic, social and political context that may encourage, support or discourage entrepreneurial activity in the country. As GEM creates a platform for comprehensive approach to analyze entrepreneurial environment in a country, it argues that entrepreneurship development can have linkages to the special conditions existing in a particular country, which either enhance or hinder a new business establishment. These conditions are known as Entrepreneurial Framework Conditions (EFCs). APS does not cover the appropriate information based on what EFCs can be assessed. To cover the remaining part the APS is complemented by the **GEM NES**, which requires to survey at least 36 carefully selected individuals with specific national expertise and knowledge. The uniqueness of NES is the focus on EFCs rather than on general economic factors. NES designed to collect data on the assessment by experts' on the following dimensions of a specific EFC:

1. Entrepreneurial Financing System
2. Government Policy (governmental public policies for entrepreneurs)
3. Government Entrepreneurship Programs

<sup>3</sup> A 5-point Likert scale: from strongly agree (SA)=5, agree (A)=4, Neutral (N)=3, Disagree (DA)=2 to strongly disagree (SDA)=1





4. Entrepreneurship Education
5. R&D Transfer
6. Commercial and Legal Infrastructure
7. Entry Regulation
8. Physical Infrastructure
9. Cultural and Social Norms

Each selected expert must be a person involved in any above-mentioned phase of the entrepreneurial processes. GEM NES experts are selected based on their experience; the age range and gender do not have restriction in this case.

### APS and NES in Armenia

The Armenian national team adopted GEM methodology for 2019 research. Based on purpose of GEM 2000 respondents within 18–64 age range were surveyed through APS in Armenia. Multistage sampling was used to ensure proportional distribution of the sample size (2000 interviews in urban and rural areas as requested) according to the 11 administrative units of Armenia (Yerevan and 10 marzes/regions). The sample was stratified within three strata: Yerevan, urban and rural areas. The sample size in each stratum was distributed by administrative regions of Armenia, so that data are collected throughout all the regions in the country for the representativeness. Within selected primarily sampling units the selection of households<sup>4</sup> was done by applying random route procedure and in the final stage was the selection of respondents within a household using “next birth” method. GEM methodology allows up to +/- 15% deviation of random sample from predefined quotas of age and gender. In case of Armenia soft quotas were required to be used at the last stage of sample collection and the weights were used to avoid any disproportions. The fieldwork took place in May–June 2019. Survey with respondents was conducted through face-to-face interviews.

40 experts participated in NES from Armenia. Each EFC was represented at least by 4 experts. Experts were contacted by Armenia’s GEM national team and asked to fill in NES questionnaire (available both in English and in Armenian) online or by e-mail. NES data were collected during March–June, 2019.

### 1.3 GEM conceptual framework

National economic growth and prosperity are explained in traditional

<sup>4</sup> Official definition of household by Armstat (Statistical Committee of the Republic of Armenia) is group of individuals living together, running a single economy and sharing a unified budget.

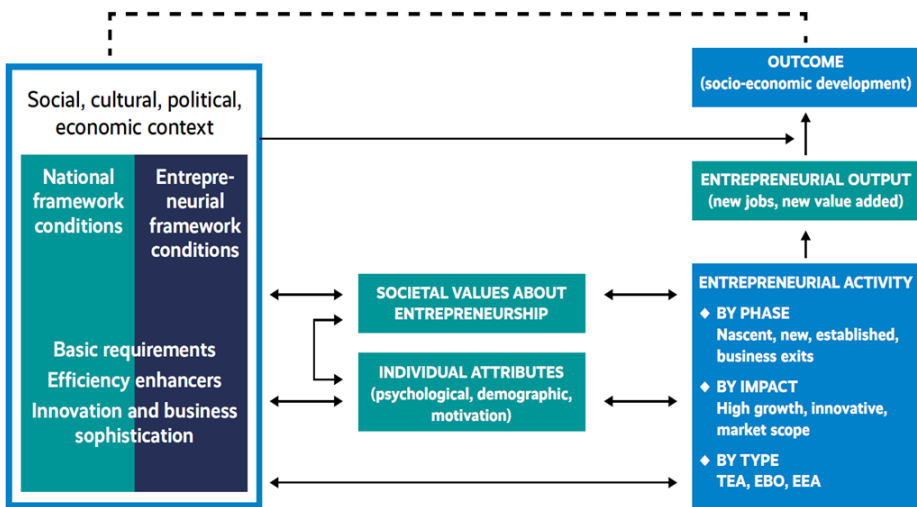


economics by focusing on the exploitation of natural resources, and the roles of big business and trade. More recent iterations add in factors such as localized agglomeration economies, innovation and the development of human capital. Entrepreneurial activities take place within the specific context of a given environment, with its own unique social, cultural and economic characteristics. Within each environment entrepreneurial activity (or creation and development of a business) is a result of individual’s perceptions of an opportunity and ability to act.

The GEM conceptual framework is outlined in Figure 1. Entrepreneurial activity is jointly determined by social values and individual attributes and creates added value and jobs. But the framework also accounts for the social, cultural, political and economic context, which both influences and is influenced by this activity.

The two GEM Surveys — both the APS and the NES — give substance to the conceptual framework by identifying those factors that influence entrepreneurial activity, providing important policy implications for those policymakers, practitioners and other stakeholders seeking to expand levels of entrepreneurship. The rigorous GEM methodological approach turns survey responses into precise measures of the level of entrepreneurial activity, providing relevant data for policymakers to monitor and evaluate the impacts of policies and initiatives.

**Figure 1. The GEM conceptual framework**



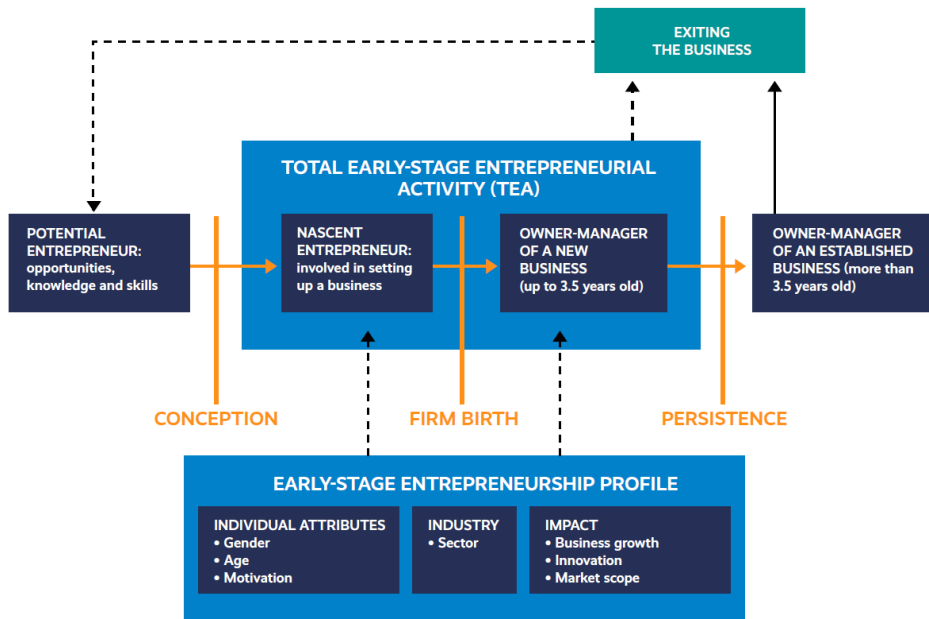
Source: 2019/2020 GEM Global Report



## 1.4 How GEM measures entrepreneurship

GEM’s key indicators of the phases of business development, from the phase of starting and running a new business, to the phase of established business ownership are presented in Figure 2. The figure also shows business exits, after which individuals may start another business or continue to be involved in entrepreneurial activity in other ways. Discontinuing a business can be an important phase of entrepreneurship, providing important learning for the individuals involved (and for the future businesses they may create) and relevant knowledge to other potential and actual entrepreneurs. One important indicator for GEM research is the level of Total early-stage Entrepreneurial Activity (TEA), or the proportion of the working-age adult population actively engaged in starting or running a new business. TEA is the sum of those actively starting a new business (Nascent Entrepreneur), plus those already running a new business (Owner-Manager of a new business), minus any double counting (those who fall into both categories). Those who are running a business that has paid wages for 42 months or more are categorized as Established Business Owners.

**Figure 2: Entrepreneurial phases and GEM entrepreneurship indicators**



Source: 2019/2020 GEM Global Report



## Main definitions

**Nascent Entrepreneur** – who has involved in setting up a business but have not yet paid salaries, or any other payments, including to the founder(s), for three months or more.

**Owner-Manager of a new business** – who runs a business and have paid wages, or other payments, including to the founder[s], for three months or more but for less than 42 months.

**Established Business Owners** – who are running a business that has paid wages for 3.5 years (42 months) or more.

## 1.5 Hypothesis of Armenian National Team before first GEM Research in Armenia

Based on experts' perception in Armenia and taking into account the questions discussed during GEM surveys, we have put forward several hypotheses towards entrepreneurship in Armenia. These hypotheses were confirmed or rejected by the results of GEM in Armenia. The hypotheses are discussed at the end of each corresponding Chapter. Here are the main hypotheses:

1. Age is determining factor for entrepreneurship in Armenia.
2. The Armenians are more inclined to be involved in an entrepreneurial activities compared with the rest countries.
3. Armenians are more innovative rather than other nations.
4. The post-Soviet Union provision towards entrepreneurship has negative impact on entrepreneurship activities.
5. Entrepreneurial education affects the level of entrepreneurship in the country.
6. The main reason to be entrepreneur is having no “boss”, in other words to be independent in their work and make more income.
7. According to previous GEM Global report, entrepreneurs from middle-income countries are more improvement driven, which means seeking for the higher income rather than necessity driven, which is more notable for entrepreneurs in low-income countries. Therefore, our hypothesis is Armenian TEA and established businesses are inclined to make more income.
8. According to previous GEM Global report, entrepreneurs create jobs and contribute to employment. The hypothesis is entrepreneurs (TEA-Total



early stage Entrepreneurship Activity) expect to add 1-5 job place in their businesses in 5 years.

- 9.** Armenian entrepreneurs are orientated to sell their product abroad rather than in local market. According to previous GEM Global report, in economies with small populations, entrepreneurs often seek customers beyond their small internal markets. In contrast, countries with large populations provide large and diverse, as well as familiar, internal markets that may be attractive and sufficient for most entrepreneurs.
- 10.** Financial challenges are big issues for entrepreneurs to start their business.
- 11.** The level of entrepreneurship is lower in rural areas rather than in Yerevan.
- 12.** The type of preferred activities of entrepreneurship is different for rural and urban areas: services in Yerevan and other urbans and agricultural production in rural areas.
- 13.** The share of non-formal financial supporters in the entrepreneurship is big in Armenia.
- 14.** The share of the people trying to be entrepreneurs in Armenia especially among young ages for both genders is comparably higher.
- 15.** Almost all business exits mean that the end of a business is near.





# Chapter II.

## The Social and Cultural Foundations of Entrepreneurship

*“Passion, creativity, and resilience  
are the most crucial skills in business.  
If you’ve got those, you’re ready to  
embark on the journey.”*

— **Jo Malone, Founder of Jo Malone**

## 2.1 Introduction to assessment

Social and cultural attitude to entrepreneurship reflect population's approaches towards entrepreneurship. People's behavior on this subject can bring favorable socio-psychological climate for developing entrepreneurship in a country, which can be a reason for financial stimulation to the particular sector of an economy. It also can stimulate to develop infrastructure in a country and attract more business communities to be involved.

GEM developed set of questions, which allows to assess the level of entrepreneurship attitude in a country. Attitude can be explained by measuring the social knowledge, individuals approach and value system towards entrepreneurship. Value system towards entrepreneurship in a country may influence social knowledge as well as self-perception towards entrepreneurship. Individual characters of a nation like proactivity and creativity is another component, which may explain size and successfulness of entrepreneurship in a country.

## 2.2 Values system towards entrepreneurship in a country

Values system towards entrepreneurship in a country is the overall environment, which may support or hinder development of entrepreneurial activity and self-perceptions toward entrepreneurship in a country. The values are usually formed during the generations and is very difficult to change during a short period. GEM APS questionnaire asks the respondents if they agree to the several statements, that can be used to assess peculiarities of values towards entrepreneurship in different countries as well as within the country. These are the statements "In your country ...":

- ▶ most people would prefer that everyone had a similar standard of living (equal income).
- ▶ most people consider starting a new business a desirable career choice (career choice).
- ▶ those successful at starting a new business have a high level of status and respect (status).
- ▶ you will often see stories in the public media and/or internet about successful new businesses (media).





▶ you will often see businesses that primarily aim to solve social problems (social problems).

According to the population in Armenia, value system towards entrepreneurship is more favorable compared to the world's average perception. Particularly, with the share of population who agreed to the statements on “starting a business is a desirable career choice” and “businesses aim to solve social problems” Armenia is 4<sup>th</sup> out of 50 GEM countries and the leader among Eastern European region. Anyway, share of population that agreed to the statement on “high level of status and respect towards new businesses” is in average positions (32<sup>th</sup> out of 50 GEM countries).

**Table 1. Armenia vs GEM 50: Value system statements toward entrepreneurship**

	% of adults agreeing with statement	Armenia's rank		GEM 50 countries average	Difference with World average, pp
		in all 50 countries of GEM	in 9 countries E. Europe		
most people would prefer that everyone had a <b>similar standard of living</b> .	72.8%	17	4	65.9%	6.9
most people consider starting a new business a <b>desirable career choice</b> .	87.2%	4	1	65.7%	21.6
those successful at starting a new business have a high level of <b>status and respect</b> .	73.4%	32	4	72.9%	0.5
you will often see stories in the <b>public media</b> and/or internet about successful new businesses.	76.2%	11	2	66.1%	10.1
you will often see businesses that primarily aim to <b>solve social problems</b> .	69.4%	4	1	44.8%	24.6

Source: GEM Adult Population Survey 2019



There is no evidence of correlation of value system assessment indicators with the countries income level (GDP per capita). Only some moderate negative correlation (-0.39) is visible between GDP per capita indicator and “**business is a desirable career choice**”. Moreover “business as a desirable choice” has higher correlation (0.54) to the level of poverty (share of population with less than \$5.5 per day income at 2011 prices). This means that the higher average income level in the country, the lower is the share of population agreeing that business is desirable career choice. High-income countries have more opportunities of career choice as employee, while low-income countries have to rely more on entrepreneurship.

**Table 2. Correlation between Value system indicators and indicators of income, poverty by countries**

	GDPpc	GINI	Poverty	Equal inc.	Career cho.	Status	Media	Social probl
GDPpc								
GINI	-0.37							
Poverty (below \$5.5)	-0.53	0.37						
Equal income	-0.15	-0.14	0.41					
Career choice	-0.39	0.29	0.54	0.53				
Status	-0.06	0.07	0.25	0.46	0.62			
Media	-0.06	0.14	0.22	0.53	0.42	0.70		
Social problems	-0.10	0.18	0.42	0.17	0.24	0.23	0.43	

Source: Armenia GEM Team calculations, GEM Armenia: Adult Population Survey 2019

The level of poverty in the countries also somehow explains the share of population agreeing to two other statements: “everyone should have a similar standard of living” and “businesses primarily aim to solve social problems”. Hence, the higher is the poverty level in the country, the higher share of population thinks that all should have similar standard of living and that businesses should solve primarily social problems.

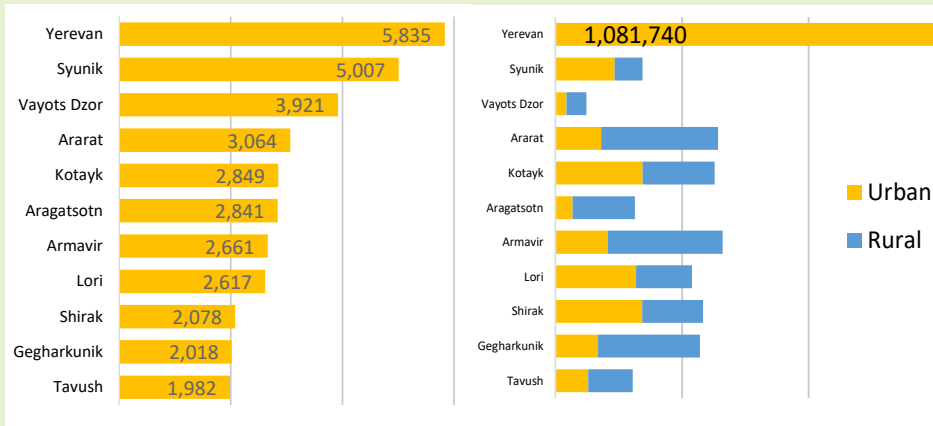
With 4 out of 5 indicators regarding values system questions Armenia is among Top-20 countries in 50 GEM, but the indicators are also different within the country when observing by regions: Yerevan, other urban and rural. These differences, perhaps, are also conditioned by income and poverty level within the country. Particularly in almost all cases, the share of population agreeing to the value statements is lower in Yerevan, compared to other urban and rural regions. Yerevan’s population answers are more close to average indicators of GEM 50 countries.



The only statement, which shows similar level of indicators among Armenian regions is “business is a desirable career choice”, which may mean that this statement in Armenia is accepted regardless of income level.

**Insert 1. Regional differences in Armenia**

*GDP per capita by marzes (regions) in Armenia (2017), USD      Population by type of settlement*



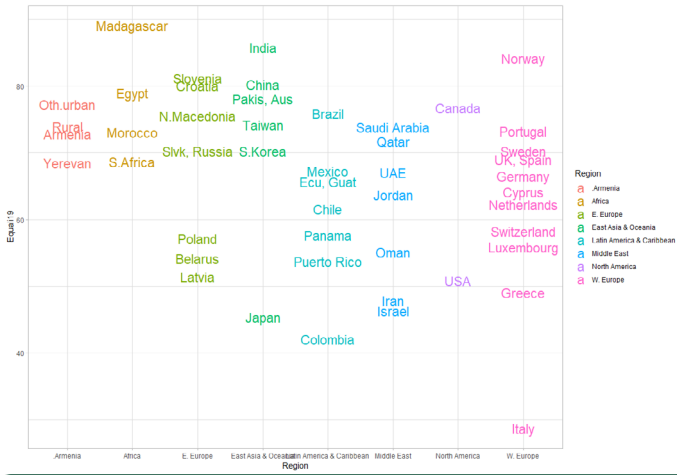
Source: Armstat (latest available data by regions)

- ▶ GDP per capita in 2017 for Armenia was \$3,869. In 2019 it increased to \$4,604 but growth was mainly contributed by Yerevan.
- ▶ Seven out of 10 regions have more than twice less GDP per capita than Yerevan.
- ▶ Syunik is closer to Yerevan due to Mining industry, while the regions with two other larger cities (Lori and Shirak) are far behind.
- ▶ Yerevan has over 1/3rd of country’s population, but over 54% of Armenia’s GDP. Yerevan’s share is much higher in trade and services (74.5% and 83.2%).
- ▶ All regions are at least 4 times smaller by population than Yerevan.

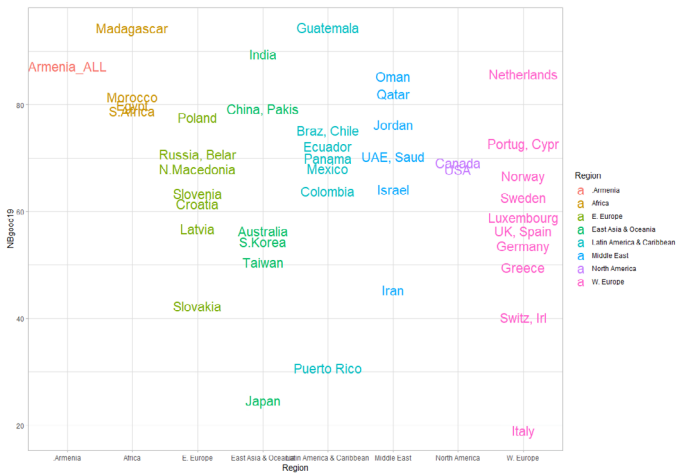


**Figure 3. Armenia (including regions) vs GEM 50: Value system statements toward entrepreneurship (% of adults agreeing to statement)**

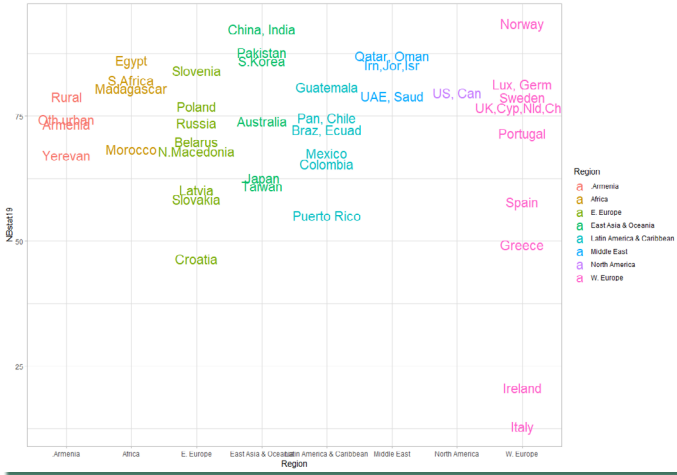
**a) “similar standard of living”**



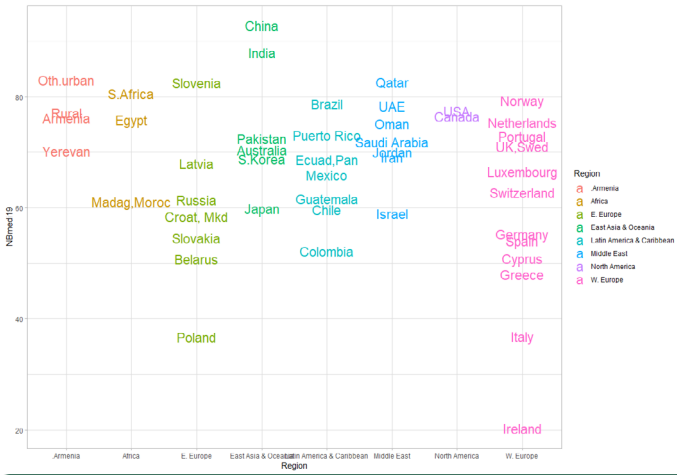
**b) “business is a desirable career choice”**



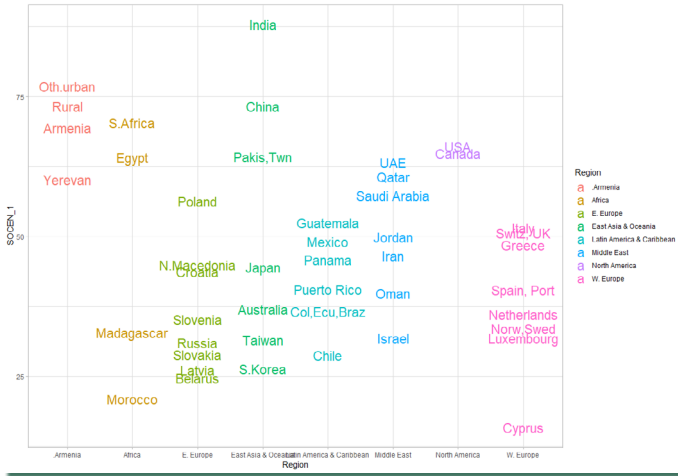
c) “new businesses have status and respect”



d) “successful businesses in public media”



e) “businesses aim to solve social problems”



Source: GEM Adult Population Survey 2019

There are also differences in perception of values system statements for **other different groups of population in Armenia. Overall, 72.8% of population in Armenia agrees that “everyone should have similar standard of living”**. This statement is usually more accepted by people who suffer more from inequalities and who have less opportunities. Female give more importance to equality than male (79% vs 66%), as perhaps they suffered more from inequalities. Less people agreed to “similar standard of living” with increase of per capita income and education. This can be explained perhaps with the fact that people with higher income and education have more opportunities and they think as they have put more efforts than others, so their efforts need to be compensated and appreciated accordingly. Less people from younger age groups (18 to 34) agree to the equality statement compared to older generations, as they have more opportunities. Older generations also still have some influence of “soviet mentality”. Anyway, influence of “soviet mentality” towards entrepreneurship is almost invisible in Armenia, perhaps due to “shock model” implementation of transition in early 1990s. Armenia was the first soviet country which started privatization of land and aimed on development of liberal economy.

**Overall 87.2% of population in Armenia thinks, “starting a business is a desirable career choice”**. There are no large differences between age groups and gender. Interesting that population with higher education and higher income per capita a bit less agree to this statement compared to others, as perhaps they have more opportunities for career in large and established businesses. However, this is largely accepted statement in Armenia (4<sup>th</sup> among 50 GEM countries),



which is good for development of entrepreneurship in the country.

**More than 7 adults out of 10 (73.4%) in Armenia agree to the statement that “those successful at starting a new business have a high level of status and respect”.** The level of population who agrees to this statement is not much different by diverse groups. Comparably larger difference is registered between male and female (75.5% vs 71.0%) and especially between Yerevan and rural population (67.2% vs 77.8%). Doing business in rural communities is more respectful as there are much less alternative income opportunities.

**Media promotion of successful businesses is quite large in Armenia – 76.2% of population agrees to this statement** (11<sup>th</sup> highest indicator among 50 GEM countries and the 2<sup>nd</sup> in Eastern Europe region). Other post-Soviet Union countries like Russia and Belarus have 61% and 51% respectively. The statement on “status and respect for new businesses” is strongly correlated with the statement on “often see stories in the public media and/or internet about successful new businesses”. This means that media promotion of successful businesses contributes to increase in status and respect for businesses in the country and may promote development of a national entrepreneurial culture. More women than men agreed to the statement on “stories in public media about successful businesses” (80.2% vs 71.5%), which can be explained by fact that women spend more time in internet and watching TV programs than men<sup>5</sup>. This explains also the difference between indicators of women and men on “status and respect”.

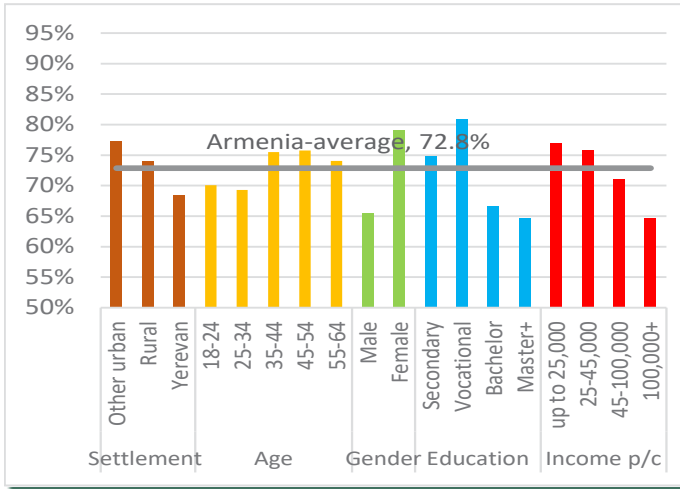
**Armenia is 4<sup>th</sup> among 50 GEM countries with share of population who “often see businesses that primarily aim to solve social problems” (69.4%).** Among Eastern European countries, Armenia is in the first place, where 70% of adults agreed with the idea that businesses in the country aimed to solve social problems. This perhaps can be explained by influence of large Armenian diaspora, which acts usually to support businesses aiming to solve also social problems in the country. While the state support is still small, diaspora takes the responsibility to solve also social problems through the business. While no trend is visible by age groups or gender, there is a large difference between population by education and income. The higher the income and education of population, the lower is the share of agreement to statement that “businesses aim to solve social problems” in Armenia.

<sup>5</sup> “Marketing communication channels in 2019”, Ameria 2019.

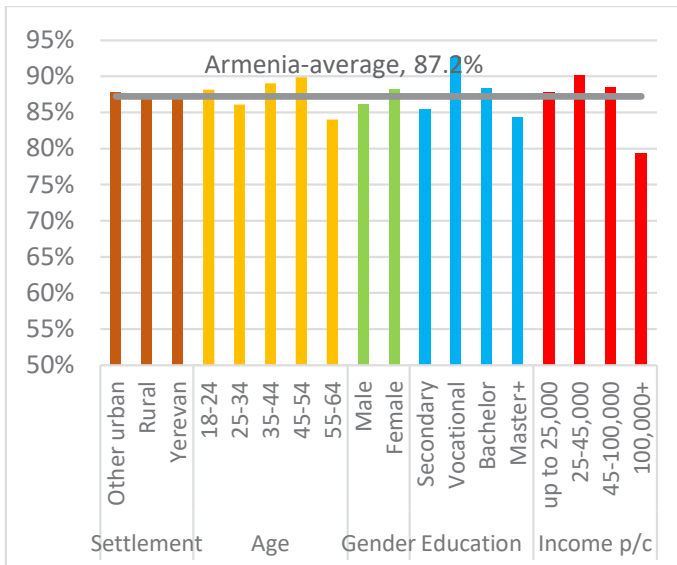


**Figure 4. Armenia: Value system statements toward entrepreneurship (% of adults agreeing to statement) by different groups of population**

**a) “prefer similar standard of living”**

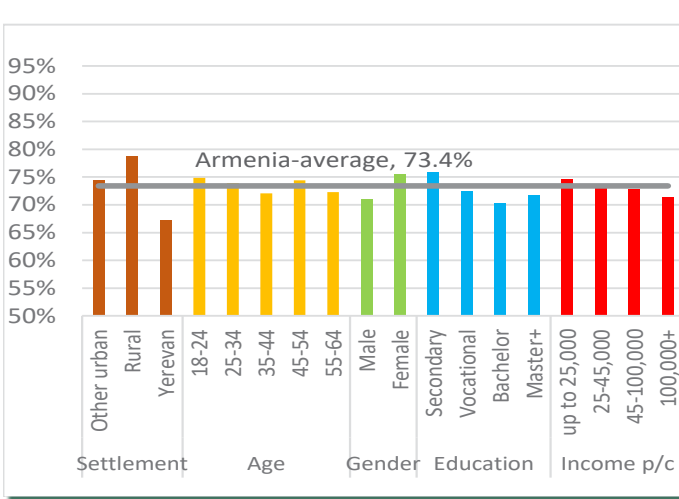


**b) “business is a desirable career choice”**

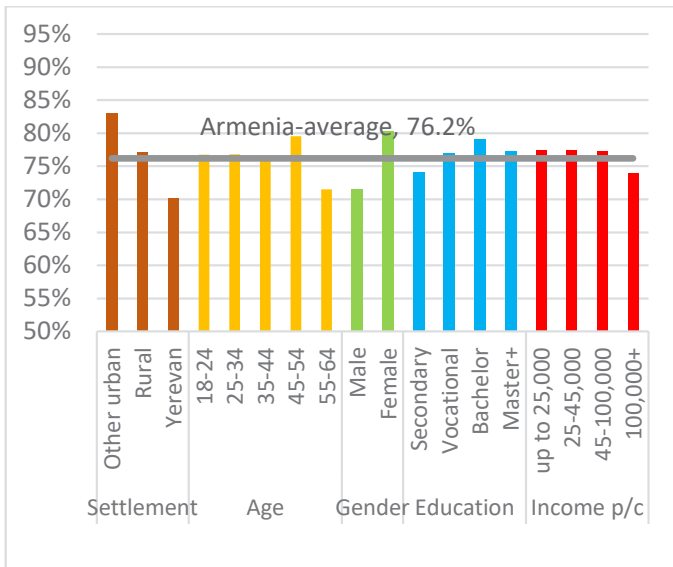




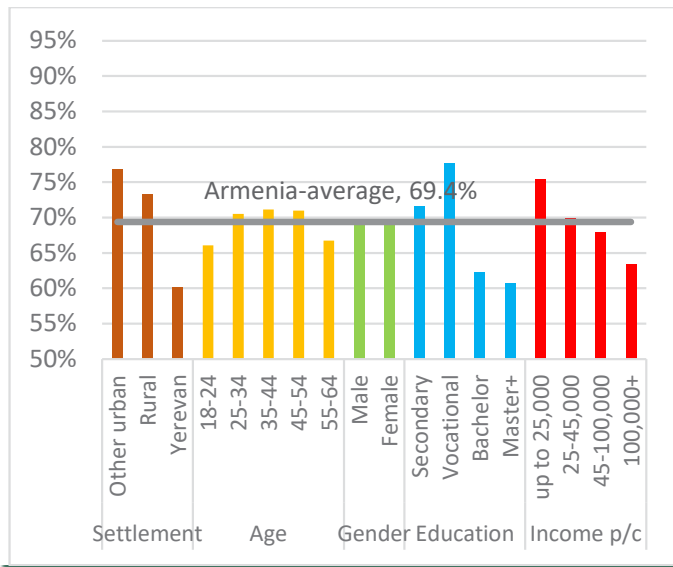
**c) “those who start new business have status and respect”**



**d) “successful businesses in public media”**



e) “see businesses that aim to solve social problems”



Source: GEM Armenia: Adult Population Survey 2019

**2.3 Social perception toward entrepreneurship – the attitude**

Individual attitude towards entrepreneurship is a part of social-cultural framework. The decision to start a business is made by taking into consideration of an individual’s attitudes, perceptions, mindset within a social, cultural and political context that either support or constrain that decision. GEM APS questionnaire reflects this phenomenon by asking:

- ▶ whether individuals know someone that have started a business or became a self-employee in the last two years (Knowing).
- ▶ whether there will be a good opportunity to start a business in the area where they live for the next six months (Opportunity).
- ▶ whether the starting a business in the country is easy doing procedure (Ease).

Analyzing each statement help to measure social attitude toward entrepreneurship and culture affecting levels of entrepreneurship in Armenia. Knowing someone who has started a business can measure the awareness level of entrepreneurship in the society. It can mean there are role models for mentorship



who can motivate other interested individuals. Only knowing more people who recently started a business is not a creed for better business environment in a country. It may also have negative impact on a person's perception towards entrepreneurship as they may heard of failed business or it is not easy to start a business in a country and so on. Therefore, it is important to look for the description of the rest indicators in complex. The answers to the statement on “whether people see a good opportunity to start a business in the area where they live in the next six months” may point out there are innovation potential in the society and ability of the people to see it. The third indicator shows the perception of population on how easy is starting a business in a country.

**Unlike value system indicators, where Armenia is on top positions compared to other GEM countries, Armenia is in average positions with indicators on social perception.** Particularly, Armenia's indicators of “knowing someone who has started a business in the past 2 years”, “whether they see opportunities in next 6 months” and “whether it is easy to start a business” is in the middle range of indicators in GEM countries (20–24 positions out of 50).

**Table 3. Armenia vs GEM 50: Social perception statements toward entrepreneurship**

	% of adults agreeing with statement	Armenia's rank		GEM 50 countries average	Difference with the World average, pp	
		in all 50 countries of GEM	in 9 countries E. Europe			
If they <b>know someone personally who have started a business</b> in the last two years.	55.6%	20	5	53.1%		2.5
Whether there will be a <b>good opportunity</b> for starting a business in the area where they live in the next six months.	53.9%	22	3	53.6%		0.2
Whether it is <b>easy to start a business</b> .	49.2%	24	3	50.2%		-1.0

Source: GEM Armenia: Adult Population Survey 2019

The analyses show there are linkages between value system and social perception statements by countries. Particularly “seeing a good opportunity for business in next 6 months” has moderate positive correlation with all values system statements discussed. Statement on knowing someone who started a business has moderate positive correlation with the values statement on “business is a desirable



career choice”. Only the statement on ease of starting a business has moderate positive correlation with country’s income level (GDP per capita level). This means that the higher is the income in a country, the higher is the perception on how easy it is to start a business. While seeing opportunities somehow depends on value system environment towards entrepreneurship in a country.

**Table 4. Correlation of Social perception indicators with Value system and Country income indicators by GEM countries**

Indicators		Knowing	Opportunity	Ease
Social perception	Knowing			
	Opportunity	0.39		
	Ease	0.00	0.64	
Value system	Equal Income	0.15	0.33	0.13
	Career Choice	0.38	0.56	0.20
	Status	0.21	0.40	0.22
	Media	0.11	0.35	0.22
	Social problems	0.08	0.55	0.45
Country income	GINI	-0.04	0.04	-0.17
	Povert (below \$5.5)	0.00	0.28	0.04
	GDPpc	-0.07	0.04	0.37

Source: Armenia GEM Team calculations, GEM Armenia: Adult Population Survey 2019

**Overall, 55.6% of Armenians know someone who has started a business recently. Armenia ranked at 20<sup>th</sup> place among GEM countries.** The awareness of entrepreneurship in Armenia is almost at the same level with Iran and Russia (55.1% and 57.1% respectively), and a bit higher than in Belarus (50.3%). It is interesting that the probability to know someone who started a business recently is higher for younger age groups, for people with higher education and income. There is also a big difference between men and women as well as Yerevan and rural settlements. All these differences, perhaps, are explained by higher engagement of these groups in entrepreneurial activities compared to others.

**The share of adults in Armenia who agreed with the statement “will be a good opportunity to start a business in next 6 months” is 53.9% (22nd out of 50 GEM countries).** Even if this indicator is also among average indicators of 50 GEM countries, it is quite higher compared to Russia and Belarus (both 29.0%), likewise to Iran (45.5%). This perhaps is an evidence of “velvet revolution” in 2018 which brings some optimism to near future. Inside the country, no clear trend is visible by age groups, but one can notice that men see more opportunities than women and also



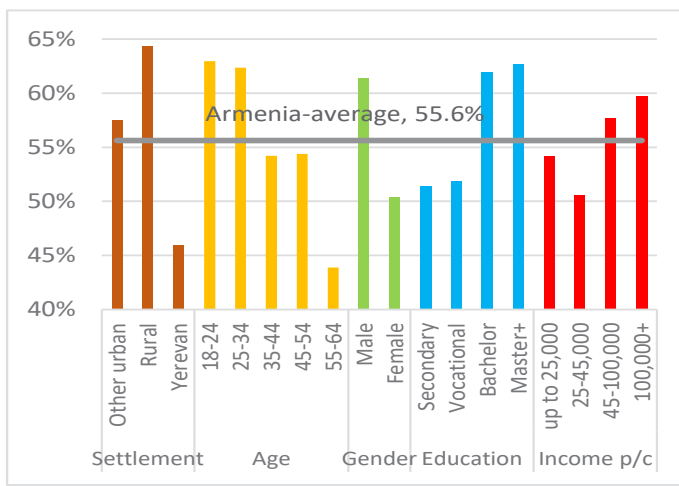
people with higher per capita income are more optimistic. Also, it is interesting that population from regions sees more opportunities compared to Yerevan.

**Armenia ranked 24<sup>th</sup> place among 50 GEM countries with 49.2% of adults having perception that it is easy to start a business.** This indicator is much higher than the same indicator in the regional countries: Iran (30.1%), Russia (31.4%) and Belarus (35.8%). It is interesting that there is only very weak correlation between World Bank “Ease of Doing Business” index and peoples’ perception on how easy is doing a business in their countries. This mean that individual perception on ease of doing business is usually different what is registered by World Bank’s index. While World bank’s index focuses more on formal measure like time of registration, difficulties in entering the market and market openness, enforcing contracts, registering property and others (where Armenia is on 47<sup>th</sup> position among 197 countries), the perception of population on easiness to start a business in Armenia is not as advanced and Armenia is in the middle level compared to other countries.

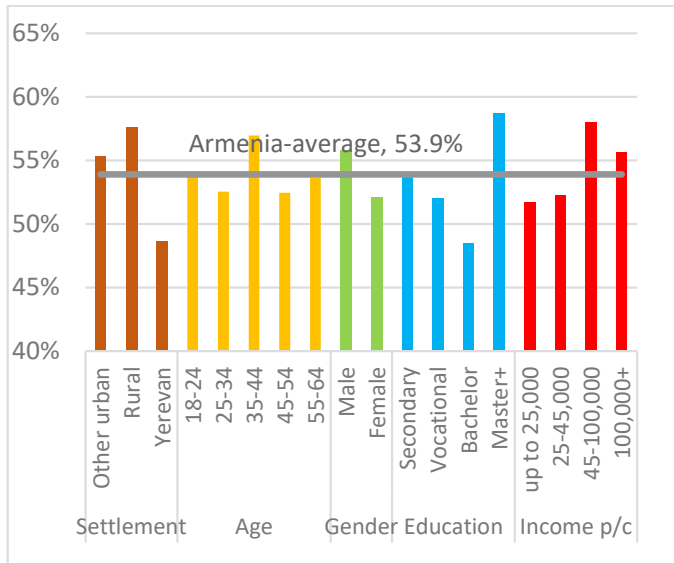
The perception of population on easiness to start a business in Armenia is higher for groups which are less active in entrepreneurship. Particularly older people more think that it is easy than younger ones who do more tries. This perhaps may mean, that it seems easy to start a business from side, but for those who try to start the expectations and reality are different.

**Figure 5. Armenia: Social perception statements toward entrepreneurship (% of adults agreed with statement) by different groups of population**

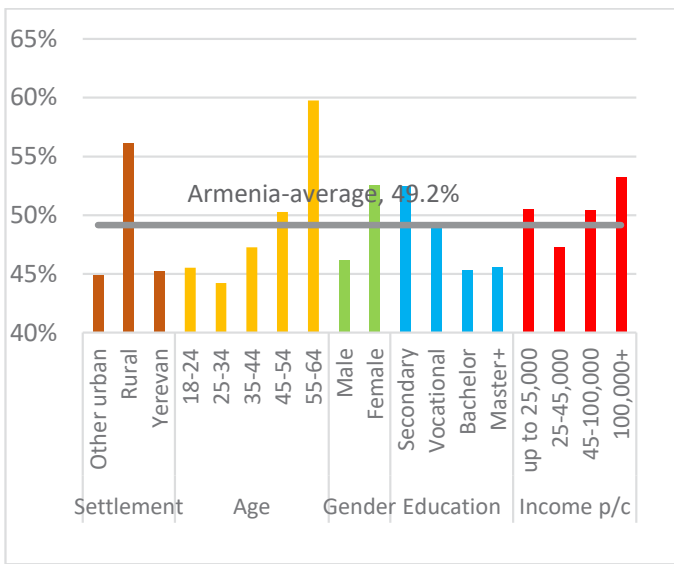
**a) “know someone who have started a business”**



**b) “there will be good opportunities for business”**



**c) “it is easy to start a business”**



Source: GEM Armenia: Adult Population Survey 2019



## 2.4 Self-perception indicators

In order to understand the cultural attitude towards entrepreneurship, it is important to illustrate also self-perceptions of adults. Though people see a good opportunity to start a business in the next six months, they need to see themselves as potential entrepreneurs as well. GEM questionnaire has two statements to assess own perception of skills and knowledge of population as well as fear to fail.

- ▶ You personally have the knowledge, skill and experience required to start a new business (Knowledge and skills).
- ▶ You would not start a business for fear it might fail (Fear to fail).

**Even if Armenians assess their knowledge, skills and experience quite high (12<sup>th</sup> highest assessment among 50 GEM countries), they are in top-10 with fear to fail.** Fear from fail to start a business is very important factor as these people would not start a business. Of course, fear to fail might be explained by opportunity costs in some countries. In some countries there may be good alternatives for a job, so there is no need to take a risk and start a business. However, it is not the case for Armenia, as job opportunities are not much, especially out of Yerevan. **It seems people in most of the countries would rather accept that they don't start a business because of fear to fail than admit that they do not have knowledge and skills to start a business.** The share of population in Armenia agreeing that they have skills is significantly higher than the share of population who mentioned that would not start a business because of fear to fail. There are only 5 countries where more people reported about fear to fail against having skills (Japan, Israel, Poland, Russia and Spain). Among Eastern European countries Croatians have very similar indicators with Armenians (71.2% and 51.0% correspondingly). More Armenians would not start a business because of fear to fail (51%), compared to Russia and Belarus (45% and 37%), even if they much more of them reported on having knowledge, skills and experience (70%) that Russians (36%) and Belarusians (42%).

One of the explanations of high level of self-assessment of knowledge and skills in Armenia can be the structure of Armenian entrepreneurship. Majority of businesses in Armenia is in area of agriculture and trade, so many people assessed their knowledge and skills in these sectors, where according to the population they have knowledge they need. High level of fear to fail to start a business in Armenia, perhaps, can be explained by nature of business culture



in Armenia, where business is frequently associated with owner’s identity. If a business is not successful it is accepted as personal failure. This may be also a reason why capital market is not developed in Armenia and why we do not have large companies with many shareholders. The lack of clear legislation for easy business exit, bankruptcy procedures, sale of businesses are also supporting fear to start a business.

**Table 5. Armenia vs GEM 50: Self-perception statements toward entrepreneurship**

	% of adults agreeing with statement	Armenia’s rank		GEM 50 countries average	Difference with the World average, pp
		in all 50 countries of GEM	in 9 countries E. Europe		
Personally <b>have the knowledge, skill and experience</b> required to start a new business	70.0%	12	2	58.3%	11.7
Would not start a business for <b>fear it might fail</b>	50.8%	10	3	43.6%	7.2

Source: GEM Armenia: Adult Population Survey 2019

The hypothesis of overestimation of their skills by people in most of the countries seems to be confirmed when looking at correlations between different indicators. While “fear to fail” seems to have no significant correlation with any indicators observed, “knowledge and skills” have moderate correlation with most of the indicators. Particularly, the higher is awareness on entrepreneurship (knowing entrepreneurs, media coverage), the higher is self-perception about having skills and knowledge. It is also interesting that there is negative correlation with GDP per capita indicators and positive correlation with poverty indicators in the country, which means that the higher the poverty and the lower is the income, more people have self-perception about having skills to start a business.





**Table 6. Correlation of Self-perception indicators with Value system, Social perception and Country income indicators by GEM countries**

Indicators		Skills	FearFail
Self-perceptions	Skills	1	
	FearFail	0.30	1
Value system	Equal Income	0.29	0.17
	Career Choice	0.54	0.30
	Status	0.25	0.10
	Media	0.32	0.05
	Social problems	0.39	0.27
Social perception	Knowing	0.54	0.20
	Opportunity	0.47	0.15
	Ease	0.04	-0.05
Country income	GDPpc	-0.45	-0.27
	GDPpcPPP	-0.34	-0.24
	GINI	0.52	0.13
	Povert (below \$5.5)	0.50	0.15

Source: Armenia GEM Team calculations, GEM Armenia: Adult Population Survey 2019

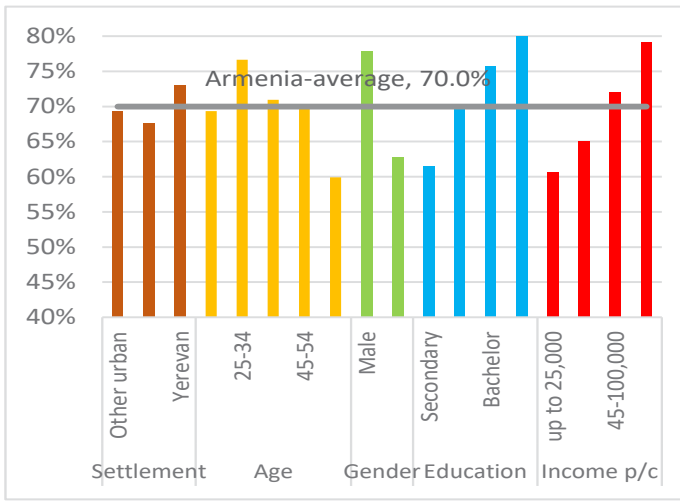
**The level of confidence on “having knowledge and skills” in Armenia is comparably high among 25–34 age group and it is getting lower with the age.** Men are much more confident on their skills and experience rather than women. The level of confidence increases with the increase of income and education.

The age group of 25–34 has less fear to fail compared to others, while they have the highest confidence on their skills, which means this would be the age group with highest share of entrepreneurs. The difference between “knowledge” and “fear to fail” is also larger for male against female, so they would have higher share of entrepreneurship. This difference also increases with income and education. Comparing regions, the difference between “knowledge” and “fear to fail” is higher in Yerevan compared to rural communities, but as it can be noticed in next chapters, entrepreneurship is higher in rural communities, which is explained by lack of alternative income sources there.

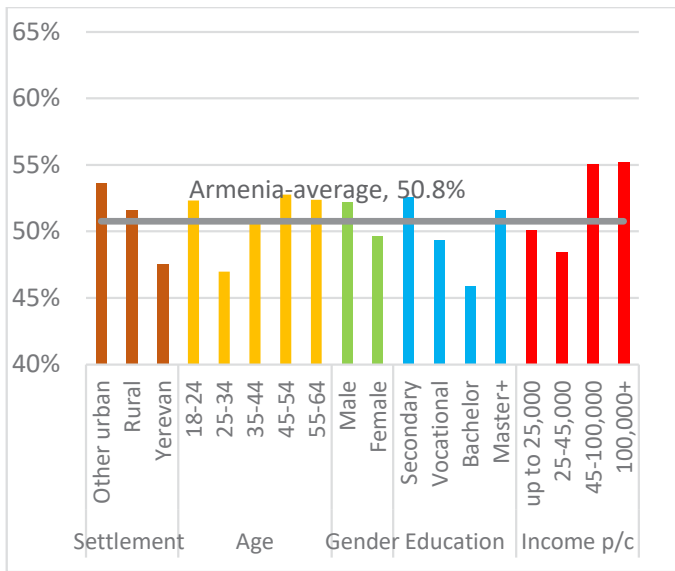


**Figure 6. Armenia: Self-perception statements toward entrepreneurship (% of adults agreed with statement) by different groups of population**

**a) “have knowledge, skills and experience”**



**b) “ would not start a business because of fear to fail”**



Source: GEM Armenia: Adult Population Survey 2019



## 2.5 Entrepreneurial Talent

It is not enough to have skills and less fear to fail in order to start and run a business, entrepreneurial talent is an essential component here. This factor can influence the individual’s decision to start a business and their aspirations to be successful. Set of statements in GEM questionnaire were aimed to identify entrepreneurial talent perception in countries. The respondents were asked to agree or disagree with the following statements:

- ▶ You rarely see business opportunities, even if you are very knowledgeable in the area (**Opportunism**),
- ▶ Even when you spot a profitable opportunity, you rarely act on it (**Proactivity**),
- ▶ Other people think you are highly innovative (**Creativity or Innovative**),
- ▶ Every decision you make is part of your long-term career plan (**Vision**).

**Even if Armenians consider themselves innovative (8<sup>th</sup> out of 50 countries and 2<sup>nd</sup> out of 9 Eastern European countries), they quite rarely see business opportunities (11<sup>th</sup> out of 50 countries, which means lower than average in the world) and their proactivity and vision is on average level among all 50 GEM countries.**

**Table 7. Armenia vs GEM 50: Entrepreneurial Talent statements toward entrepreneurship**

	% of adults agreeing with statement	Armenia’s rank		GEM 50 countries average	Difference with the World average, pp
		in all 50 countries of GEM	in 9 countries E. Europe		
You rarely see business opportunities, even if you are very knowledgeable in the area ( <b>Opportunism</b> )	66.8%	11	2	59.0%	7.9
Even when you spot a profitable opportunity, you rarely act on it ( <b>Proactivity</b> )	64.7%	22	6	62.3%	2.4
Other people think you are highly innovative ( <b>Creativity or Innovative</b> )	80.5%	8	2	66.3%	14.2
Every decision you make is part of your long-term career plan ( <b>Vision</b> )	74.9%	25	4	71.1%	3.8

Source: GEM Armenia: Adult Population Survey 2019



Self-assessment of creativity and innovativeness for Armenians has always been high due to objective and subjective reasons. But it is strange to see high level of innovativeness with high level of rarely seeing opportunities. Creativity indicators have strong correlation with self-assessment of skills by countries. Anyway, it is interesting that the higher is GDP per capita of countries and the lower is Poverty, the higher is self-assessment of creativity by countries. But, perhaps, it is not the main factor explaining creativity. There are more regional and national conditions explaining creativity (see Annex 2.13). Particularly, creativity is assessed high in countries in Latin America, Middle East mainly and is usually lower in Europe. The countries with over 80% of adults thinking that they are innovative (like Armenia) are Poland, Saudi Arabia, Israel, India, USA, Guatemala and Columbia.

**Table 8. Correlation of Entrepreneurial talent indicators with Value system, Social and Self-perception and Country income indicators by GEM countries**

		<i>Opportunism</i>	<i>Proactivity</i>	<i>Creativity</i>	<i>Vision</i>
Enrepren. Talent	Opportunism	1			
	Proactivity	0.49	1		
	Creativity	0.34	0.32	1	
	Vision	0.70	0.45	0.67	1
Country income	GDPpc	-0.52	-0.12	-0.33	-0.44
	GDPpcPPP	-0.46	-0.16	-0.25	-0.33
	GINI	0.26	-0.01	0.35	0.52
	Povert (below \$5.5)	0.54	0.31	0.28	0.46
Value system	Equal Income	0.43	0.51	0.15	0.36
	Career Choice	0.48	0.46	0.59	0.58
	Status	0.38	0.63	0.52	0.48
	Media	0.25	0.49	0.36	0.50
	Social problems	0.18	0.19	0.33	0.27
Social perception	Knowing	-0.02	0.04	0.54	0.22
	Good Opportunity	0.19	0.29	0.49	0.34
	Ease	-0.26	0.24	0.14	-0.11



Self-Perception	Skills	0.47	0.15	0.75	0.72
	Fear to fail	0.33	0.31	0.42	0.36

Source: GEM Armenia: Adult Population Survey 2019

However even being innovative is not enough for becoming entrepreneurs. There is a need to see opportunities and act on them. People see more opportunities in countries with higher income (GDP per capita) and lower poverty, while proactivity is not explained by country's income level. Proactivity is at almost same level in Eastern European countries (including Armenia). The most proactive people among 50 GEM countries are in Italy, Ireland (see Annex 2.12). Italians are also the leaders in seeing business opportunities.

**More than 80% of Armenians agreed that other people think they are innovative.** The creativity is higher at young age groups and is increasing with education and income. Creativity is also a bit higher among population in Yerevan (83.9%), than in rural and other urban areas (around 78.6%).

**Around 67% of Armenians rarely see business opportunity, even if they are knowledgeable in that area.** Interesting that the youngest and the oldest age groups see more opportunities. Also, people from lower income per capita groups inform on seeing more opportunities (but they act less on these opportunities). There is no big difference by education.

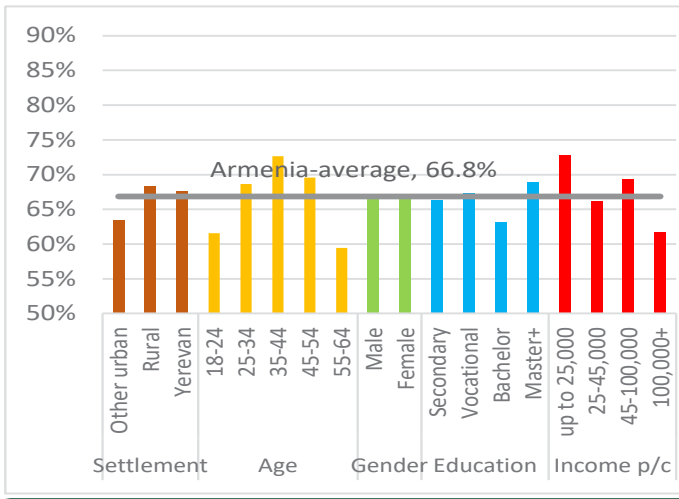
**Around 65% of Armenians rarely act even if they spot a profitable business opportunity.** Adults with higher education and income levels are more proactive. There is no difference between male and female regarding proactivity. It is interesting that the older age group assess themselves as most proactive, but as it is shown in next chapters, they have the lowest share of entrepreneurs. Rural population are more tended to act rarely to business opportunity (68.8%) compared to Yerevan (64.6%), while the most proactive people are in other urban areas (only 59.3% acts rarely).

**Around 75% of Armenians agreed with the statement that every decision they make is part of their long-term career goal (25<sup>th</sup> position out of 50 countries).** Long-term career plan is more in minds of younger age groups and the indicator increases with education level. Males are more purposeful about their career plans rather than females. There is no clear trend on career plan by income level of population.

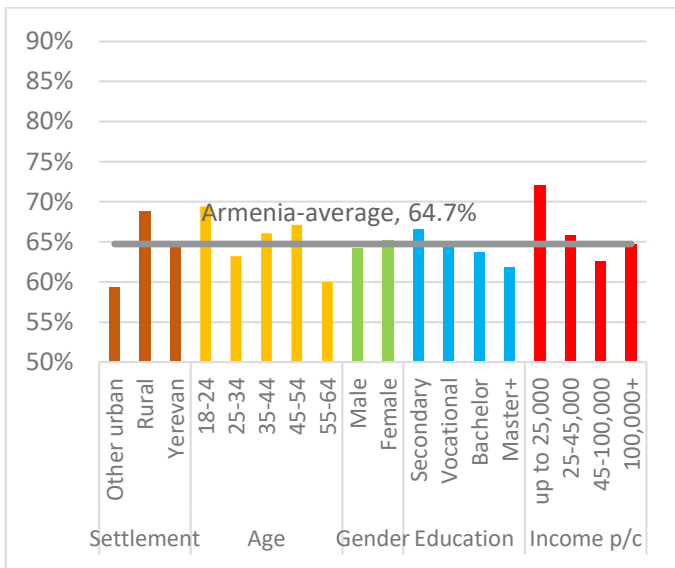


**Figure 7. Armenia: Entrepreneurial Talent statements toward entrepreneurship (share of adults agreeing to statement) by different groups of population**

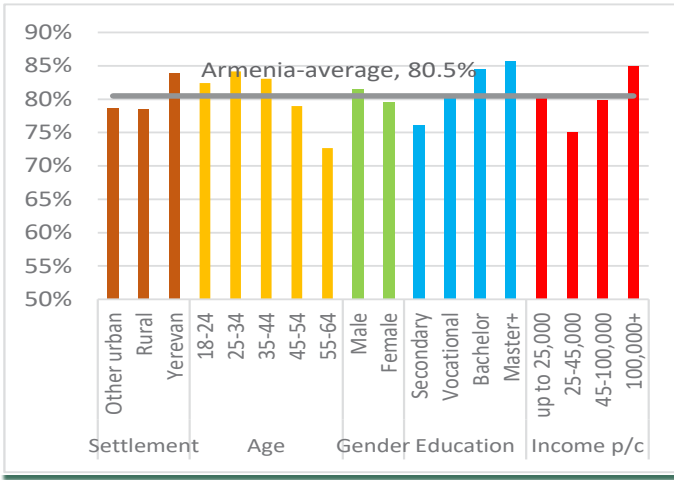
**a) “rarely see business opportunities”**



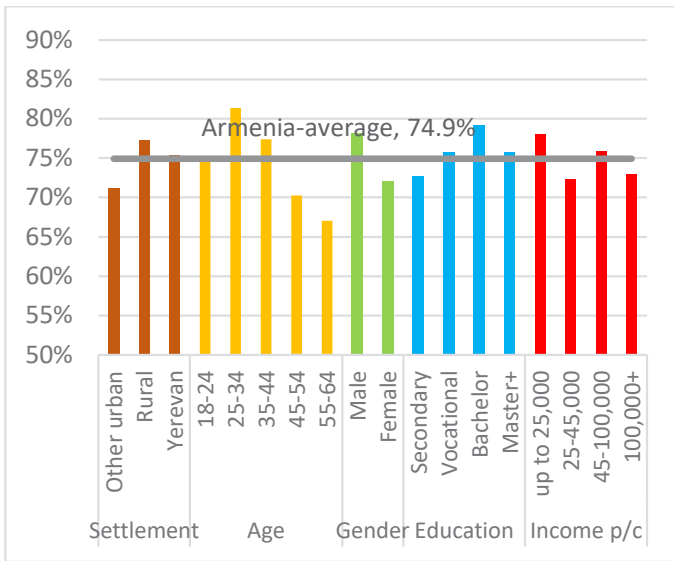
**b) “rarely act on profitable opportunities”**



**c) “other people think you are innovative”**



**d) “purpose driven career plans”**



Source: GEM Armenia: Adult Population Survey 2019



## 2.6 Conclusions

► **Value system towards entrepreneurship** in Armenia is more favorable compared to the world's average perception. New business is a desirable career choice is largely accepted statement by the Armenians (4<sup>th</sup> out of 50 countries), which is a good point for the country to create platforms for developing entrepreneurship. Media already has a significant contribution to business development in the country as 76% of population (11<sup>th</sup> out of 50 countries) often see stories on successful businesses in public media. According to Armenians the business in Armenia has more focus on solving social problems (4<sup>th</sup> out of 50 countries), which perhaps also contributes to peoples' perception towards entrepreneurship, especially in a country with significant poverty rates. Anyway, even if 73.4% agrees that those starting a successful business have high status and respect, it is lower than world average (32<sup>nd</sup> out of 50).

► Unlike value system indicators, Armenia is in average positions with indicators on **social perception** toward entrepreneurship. Armenia's indicators of "knowing someone who has started a business in the past 2 years", "whether they see opportunities in next 6 months" and "whether it is easy to start a business" is in the middle range of indicators in GEM countries (20–24 positions out of 50). Anyway, there is an evidence of improving Social perception in Armenia when comparing to the countries in the region. While Armenia has similar indicators with Russia and Belarus on "knowing someone who started a business in last 2 years", Armenians now see more opportunities in next 6 months and think it is easier to start a business compared to Russia and Belarus. This perhaps is an evidence of "velvet revolution" in 2018 which brings some optimism to near future.

► Regarding the indicators of **self-perception** towards entrepreneurship, Even if Armenians assess their knowledge, skills and experience quite high (12<sup>th</sup> out of 50 GEM countries), they are in top-10 with fear to fail. It seems people (like in most of GEM countries) would rather accept that they do not start a business because of fear to fail than admit that they don't have knowledge and skills to start a business. More Armenians would not start a business because of fear to fail (51%), compared to Russia and Belarus (45% and 37%), even if they much more of them reported on having knowledge, skills and experience (70%) than Russians (36%) and Belarusians (42%).





- ▶ While “knowledge and skills” is increasing with education and income level, and decreasing with age in Armenia, the fear to fail remains similar for all groups. That means there is a need to introduce some measures in Armenia against “fear to fail”. First, business should be separated from being associated with personal identity of an owner. Particularly, there is also a need to have clear legislation which will facilitate the processes for business exit, bankruptcy procedures, sale of businesses. There is a need for tax regulation changes regarding business exits and other procedures mentioned.
- ▶ **Entrepreneurial talent** level of population in Armenia is in average range of indicators between 50 GEM countries. Even if Armenians treat themselves as innovative (8th out of 50 countries and 2nd out of 9 Eastern European countries), they quite rarely see business opportunities (11th out of 50 countries, which means lower than average in the world) and their proactivity and vision is on average level among all 50 GEM countries.





# Chapter III. Levels of entrepreneurial activities in Armenia

*“The secret of getting ahead  
is getting started”.*

— **Mark Twain**

### 3.1 An Introduction to Entrepreneurial categories

This chapter presents levels of entrepreneurial activity in Armenia. The entrepreneurial activity may be expressed differently in different economies. In some economies, the share of startup activities or self-employed level is higher; in other economies the share of established and medium-sized business is bigger, while in some other countries entrepreneurial type employees within existing companies are prevailed.

The types of entrepreneurial activity are very important to separate as they may indicate different issues for the development of entrepreneurship in countries. Particularly, encouraging individuals to start a business is an important, and common, policy objective in many economies. However, turning those startups into long-term financially sustainable businesses is another important issue.

As it was presented in Chapter 1: “How GEM measures entrepreneurship”, GEM uses the following measures to estimate the entrepreneurship level in an economy:

1. **Total early-stage Entrepreneurial Activity (TEA):** Population (share of adults) who are actively engaged in starting or running a new business in an economy. TEA consists of Nascent Entrepreneurs and Owner-Manager of a new Business:
  - *Nascent Entrepreneur* – who has involved in setting up a business but have not yet paid salaries, or any other payments, including to the founder(s), for three months or more.
  - *Owner-Manager of a new business* – who runs a business and have paid wages, or other payments, including to the founder[s], for three months or more but for less than 42 months.
2. **Established Business Owners (EBO):** Population (share of adults) owning and managing an established business.
  - *Established Business Owners* – who are running a business that has paid wages for 3.5 years (42 months) or more.
3. **Entrepreneurial Employee Activity (EEA):** Population (share of adults) involved in as part of their role in existing business
  - *Intrapreneurs* – employees in existing business organizations, who have been involved in entrepreneurial activities such as developing or launching new goods or services, or setting up a new business unit, a new establishment, or a subsidiary, in the last three years.

Each of these indicators of entrepreneurial activity has its contribution to a sustainability of an economy. Particularly, startup business brings dynamism and

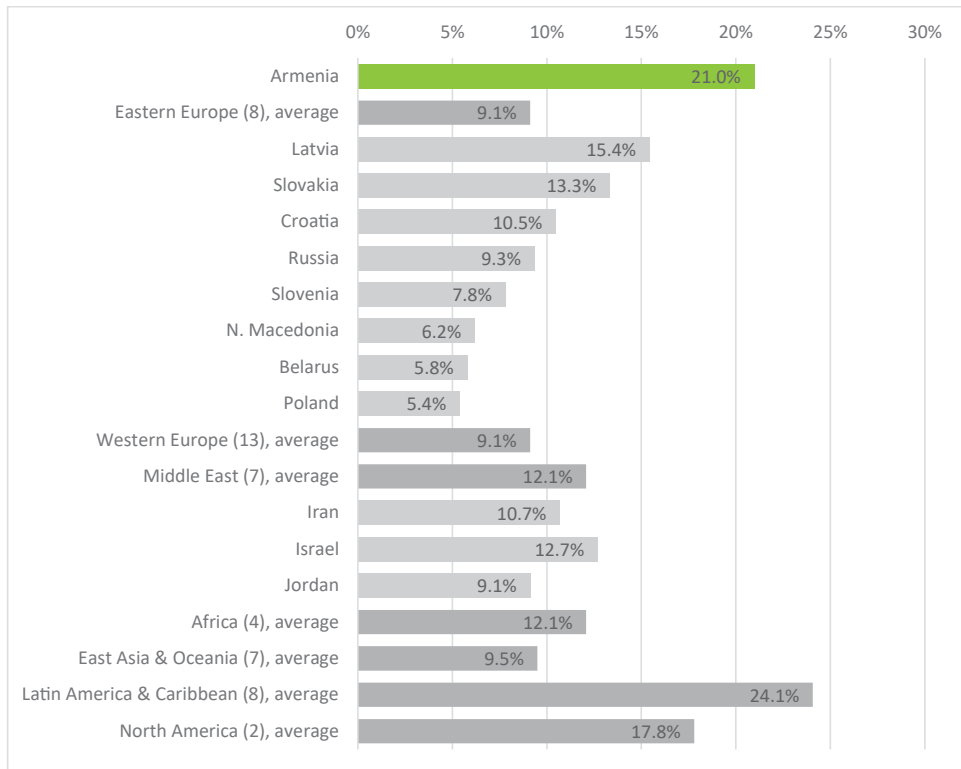


creativity into business sector in a country, entrepreneurial type employees are important as they ensure continuous innovation in larger organizations, while owner-managers of established businesses can be considered as backbone to an economy and society.

### 3.2 Early-Stage Entrepreneurial Activity in Armenia

According to GEM 2019 APS, Armenia registered high rate of early-stage entrepreneurial activity (TEA) in 2019. With 21.0% of adults engaged in early-stage entrepreneurial activity, Armenia is 7<sup>th</sup> among 50 GEM 2019 countries and it the leader in Eastern European region. All 6 countries that have higher TEA than Armenia are from Latin America (Chile and Ecuador have registered over 36% TEA). Comparably high engagement in TEA in Armenia perhaps are also explained by “velvet revolution” in 2018.

**Figure 8. TEA (% of adults) by countries/regions**



Source: GEM Adult Population Survey 2019



**Correlation analysis of indicators for 50 countries in GEM 2019 reveals that high TEA is not explained by income level or easiness to start a business in a country, but somehow can be explained with income inequalities within a country and some individual characteristic of population there, such as considering themselves innovative.** There is no correlation between TEA indicator and income (GDP per capita) and poverty level of a country. No correlation is noticed also with the easiness to start a business or fear to fail perception indicators. Instead, moderate positive correlation is observed with Gini coefficient (shows income inequalities in a country), motivation to start a business “to earn a living because jobs are scarce”<sup>6</sup>, perception of population that “starting a new business a desirable career choice in their country”, and individual assessment of characteristics of population such as “personally have the knowledge, skill and experience required to start a new business”, “other people think they are highly innovative”.

**Table 9. Correlation between TEA and selected indicators of GEM countries**

	<i>TEA19</i>
TEA19	1
GDPpc	-0.176
GDPpcPPP	-0.177
Gini coeff	0.540
poverty (\$5.5)	0.178
social equality	0.047
desirable choice	0.311
high status	0.101
media	0.129
social problems	-0.060
easy to start business	-0.133
innovative	0.406
vision plan	0.466
mot: change the world	0.137

<sup>6</sup> See Chapter 4 for details.



mot: high wealth	-0.167
mot: family business	-0.010
mot: for living	0.351
good opportunities	0.052
have skills	0.561
fear to fail	0.025

Source: Armenia National Team, GEM Adult Population Survey 2019

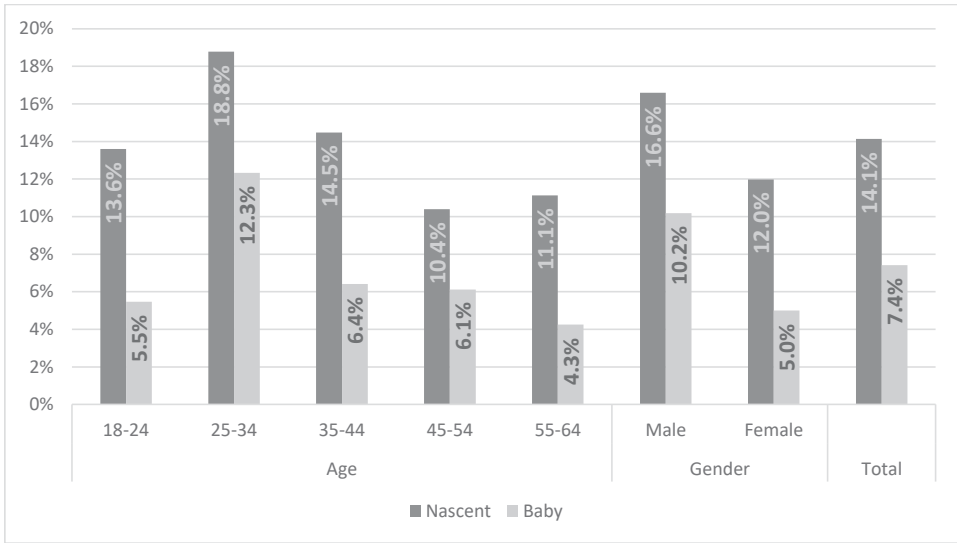
According to GEM, TEA indicator consists of two types of entrepreneurs: Nascent Entrepreneurs (less than 3 months activity) and Owner-Manager of a new business or Baby business (with activity between 3 month and 3.5 years). The share of Nascent entrepreneurs in Armenia is 14.0% and Baby businesses – 7.4%<sup>7</sup>. Armenia is on the 5<sup>th</sup> position by indicator of Nascent entrepreneurs and 10<sup>th</sup> – by Baby Business indicator. These numbers indicate that entrepreneurship was activated in early 2019 in Armenia. Anyway, with Baby business indicator Armenia is still in leading positions within the region. The share of Baby business is usually lower than the share of Nascent entrepreneurship in 40 countries out of 50 in GEM 2019. Lower share of Nascent entrepreneurs against Baby business indicate lower activity to start a business, compared to previous 3 years, which may be a sign of decrease of entrepreneurial activity in country in next years. Russia also belongs to these countries.

The share of TEA is different by population groups. The most active age group in Armenia by TEA are people within 25–34 age group, where 19% are Nascent entrepreneurs and 12% are Owners-Managers of Baby business. Significantly lower share of entrepreneurship in age groups over 45 may be also explained by “soviet mentality”, when entrepreneurship was not an acceptable way in society.

<sup>7</sup> The sum is not equal exactly to TEA indicator as GEM uses some filters to derive TEA accurately.



**Figure 9. Level of Nascent and Baby businesses by gender and age in Armenia**



Source: GEM Armenia: Adult Population Survey, 2019

TEA is different also by gender: male population is more active in entrepreneurship than female population. This is usual in most of the countries in GEM 2019 (except Madagascar and Saudi Arabia). Even if Armenia is in Top-10 countries by TEA for both gender groups (4<sup>th</sup> for male and 9<sup>th</sup> for female), comparison shows that female engagement in entrepreneurship compared to male in Armenia is lower than world average. It should be mentioned that 21 out of 50 countries have worse ratio of female and male TEA, including many countries from Europe. Small difference between female and male TEA is noticed in countries of Latin and North America.

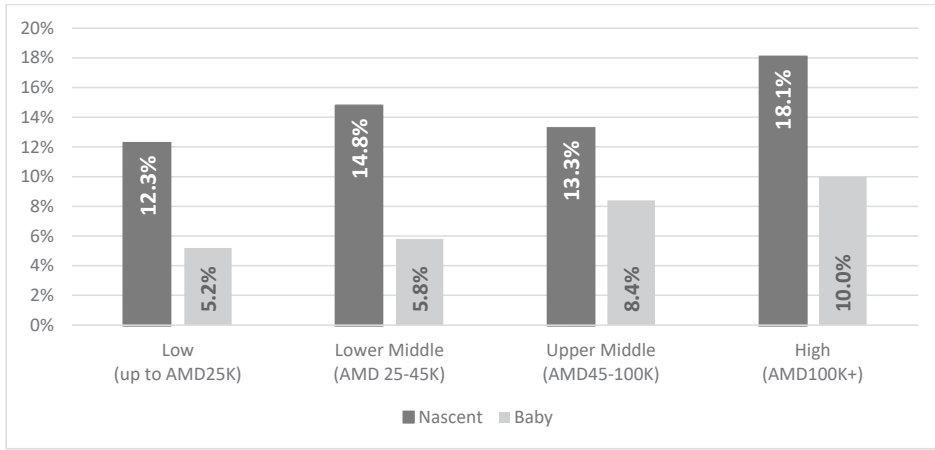
**If income level<sup>8</sup> differences (especially for first three groups) are not very obvious for share of Nascent entrepreneurship, Baby business owner share is growing with increase in income.** This may mean that all income groups are trying to start a business with almost similar rates, but in order to have impact on their income level it is very important to succeed and get to Baby business level at least.

<sup>8</sup> The income level groups are separated by per adults equivalent monthly income size: **Low** – up to 25,000 AMD, **Lower Middle** – 25,001 – 45,000 AMD, **Upper Middle** – 45,001– 100,000 AMD, **High** – 100,001 and more AMD.





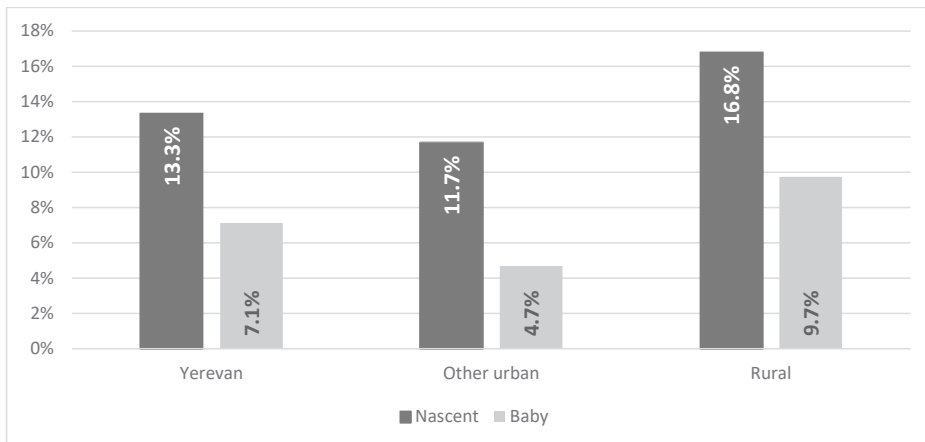
**Figure 10. Level of Nascent and Baby businesses by per capita income groups of population in Armenia**



Source: GEM Adult Population Survey, 2019

Early-stage entrepreneurial activity is also different by types of settlement and regions in Armenia. Particularly, the lowest TEA is registered in urban communities (except Yerevan), while population from rural communities are more active in TEA even compared to Yerevan. This may be explained by two factors. There are more opportunities to be employed in Yerevan compared to regions, while rural community population have to rely more on entrepreneurship. Another factor is that entrepreneurial activity in rural settlements is predominantly in Agriculture.

**Figure 11. Level of Nascent and Baby businesses by type of settlements in Armenia**



Source: GEM Armenia: Adult Population Survey, 2019

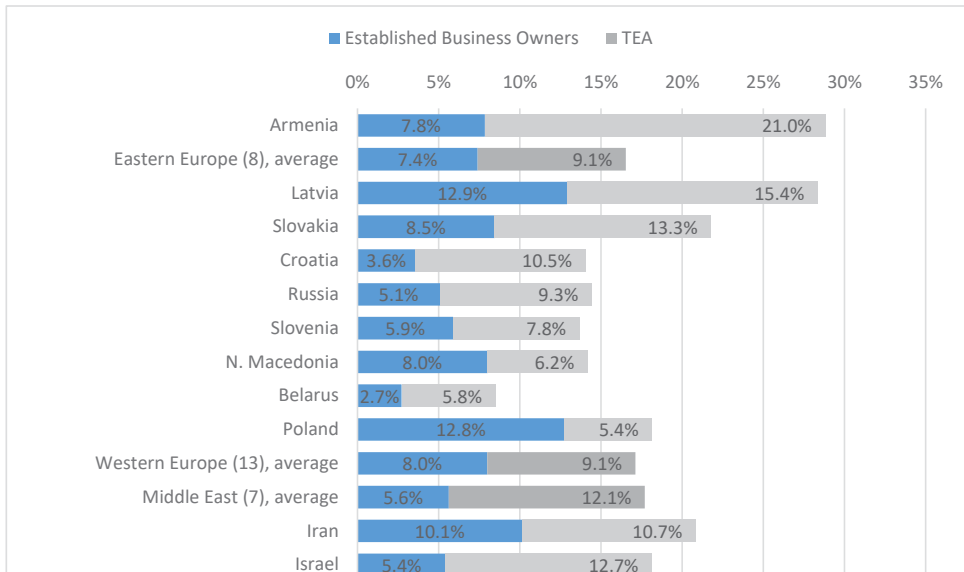


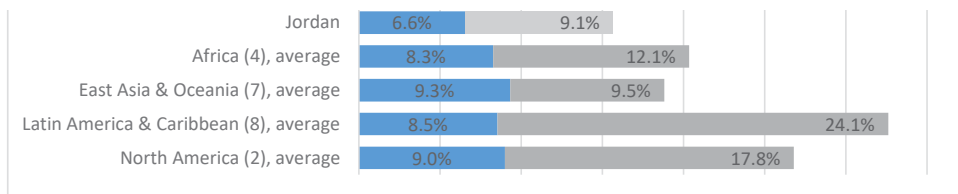
### 3.3 Sustaining Entrepreneurship: Established Business Activity in Armenia

Early-stage entrepreneurship is important indication of entrepreneurial activity in the country. It is targeted in many economies and encouraging to start a business is an important policy objective usually. While turning those startups into sustainable businesses is more challenging for an individual, therefore for the economy as it requires much more efforts, skills and favorable environment. The transformation of new business into an established business is very important as it brings sustainability and can create stable income and provide jobs.

**The indicator of Established business owners (EBO, a business with a history of more than 3.5 years) in Armenia is 7.8% (share in adults).** While Armenia is among the leaders in 50 GEM countries with TEA (7<sup>th</sup> out of 50), the country is in average positions with EBO indicator (23<sup>rd</sup> out of 50 countries). This may mean that there are comparably more issues and challenges for early-stage entrepreneurs in Armenia to transform their business into a sustainable business. The issues may be related to individual characteristics of entrepreneurs such as lack of education and skills, but also to the entrepreneurial environment in the country. Armenia’s EBO indicator is very close to average indicator of EBO in Europe, while TEA indicator in Europe is significantly lower.

**Figure 12. Entrepreneurship (EBO and TEA) rates (% of adults) by countries/regions**





Source: GEM Adult Population Survey 2019

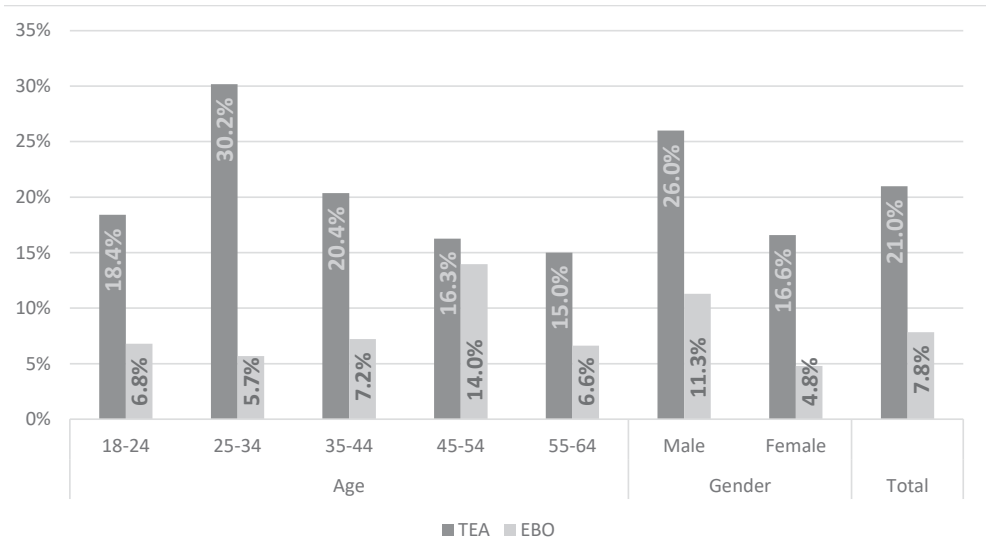
Overall level of entrepreneurship in a country can be characterized as all entrepreneurs involved in any business among entrepreneurship stages (TEA or/ and EBO). These are entrepreneurs involved in any business, such as nascent entrepreneur, owner-manager of a baby business or owner-manager of an established business. **The share of adults involved in any business in Armenia is 28.0% which is the 6<sup>th</sup> highest indicator in 50 GEM 2019 countries.**

Like TEA, EBO indicators of 50 GEM countries do not have any correlation with income level of country, but in this case no correlation is noticed with other indicators also. Instead, when we compare EBO/TEA ratio of countries (which can be perceived as proxy for the rate of successful transformation of early-stage business into a sustainable one) we notice interesting correlations. Particularly, EBO/TEA ratio has moderate negative correlation with Gini coefficient and motivation to start a business “to earn a living because jobs are scarce”. This may mean that businesses which are started in a country with higher income inequalities and with the motivation to earn for living have less chances to become sustainable. Another interesting correlation of EBO/TEA ratio is with perception of population that they have skills and experience required to start a business. If in case of TEA this perception has positive correlation (people start a business when they have this perception), then for EBO/TEA ratio the correlation is moderately negative. This may mean that overestimating their skills and knowledge to start a business may negatively impact the transformation of early-stage business into a sustainable one. Armenia is on 40<sup>th</sup> position among 50 countries with EBO/TEA ratio and is 12<sup>th</sup> with perception of having skills and knowledge among population, which means that there is a need for entrepreneurship education and trainings in the country to support businesses to succeed in transformation from early-stage to sustainable business.

Established business owners in Armenia have very different characteristics compared to Early-stage entrepreneurs. Particularly, if 25–34 age population has the largest TEA rate, it has the lowest EBO rate among all age groups. The highest share of sustainable business owners is in 45–54 age group. If TEA rates are decreasing with age within 25–54 age group, EBO rates are increasing. This may mean experience is much more important for sustainable business.



**Figure 13. TEA and EBO rates (% of adults) by age and gender in Armenia**



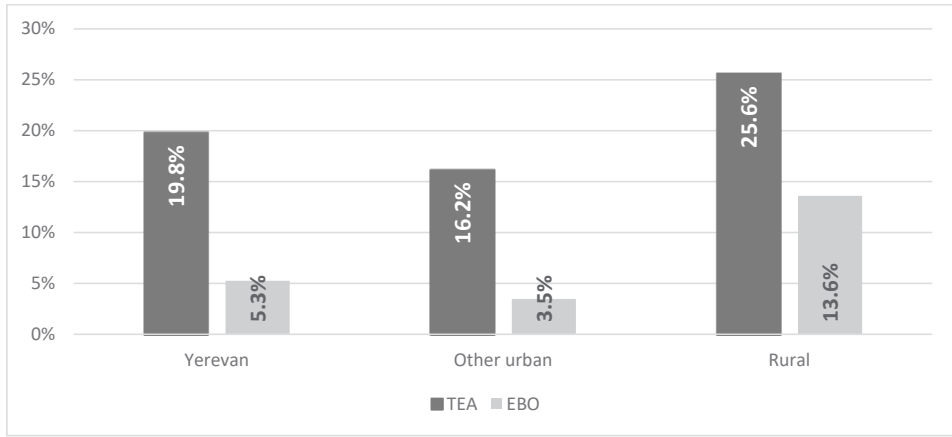
Source: GEM Armenia: Adult Population Survey, 2019

In case of gender differences EBO rates for male is higher compared to female, as it is for TEA also. There are much less female sustainable business owners in Armenia. The difference between EBO rates for male and female is larger (2.3 times), compared to TEA rates (1.5 times). This difference perhaps indicates that currently more women are involved in entrepreneurial activities than it was several years ago.

**Population in rural areas have higher share of EBO compared to Yerevan and other urban areas.** As in case of TEA entrepreneurship is higher here mainly due to Agriculture. This is also the reason of higher share of sustainability of business in rural areas.



**Figure 14. TEA and EBO rates (% of adults) by types of settlements in Armenia**



Source: GEM Armenia: Adult Population Survey, 2019

Agriculture as main economic activity for entrepreneurship in regions highly explains TEA and EBO levels by regions. Seven out of 10 marzes have higher TEA in rural settlements compared to urban settlements. EBO is higher in marzes where activity in rural areas is prevailing over urban ones (like Ararat and Armavir), i.e. sustainable business is mainly in Agriculture.

**Figure 15. Level of TEA by marzes in Armenia**

Regions	TEA	difference in TEA		EBO
		rural	urban	
Yerevan	20%	0%	5%	
Aragatsotn	30%	16%	5%	
Ararat	22%	-45%	22%	
Armavir	25%	-69%	15%	
Gegharkunik	29%	1%	5%	
Kotayk	14%	-52%	10%	
Lori	21%	95%	4%	
Shirak	11%	33%	5%	
Syunik	24%	-32%	5%	
Tavush	28%	-86%	5%	
Vayots Dzor	13%	-100%	6%	

Source: GEM Armenia: Adult Population Survey, 2019



### 3.4 The sectorial distribution of entrepreneurial activities in Armenia

Different countries may have different composition of entrepreneurship by economic industries or sectors. Moreover, the sectorial distribution may be different within the country for early-stage entrepreneurship and established business. The changes in early-stage entrepreneurship sectorial distribution against established business may alert about new changes in overall economy. The changes in sectorial distribution may depend on different factors such as diversity and quantity of available natural resources, human and financial capital, new markets, easy enter to market, in some cases also government support and others.

**Armenian entrepreneurship is predominantly in Agriculture and Trade.** Around 83% of all established business owners in Armenia are engaged in only two economic sectors: agriculture or trade. The third sector Manufacturing has only 7% share. The sectorial distribution of TEA shows some changes against EBO structure. Even if Agriculture and Trade are still dominating, but their overall share is less by 20 percentage points (63%). Manufacturing share is higher by 2 percentage point, but larger increase in share is visible for service sectors and especially for Accommodation and food services (supported by tourism activities), Information and communication sector and other personal services.

**Table 10. TEA and EBO structure by sectors of economic activity (ISIC rev 4<sup>9</sup>) in Armenia**

	TEA	EBO	Change (pp), TEA over EBO
A. Agriculture, forestry and fishing	29%	42%	-13%
B. Mining and quarrying	1%	0%	1%
C. Manufacturing	9%	7%	2%
D. Electricity, gas	0%	0%	0%
E. Water supply	0%	0%	0%

<sup>9</sup> International Standard Industrial Classification of All Economic Activities (ISIC), Revision 4 is the international classification based on which the countries prepare and use their own or regional classifications of economic activity. Armenia uses European variant of ISIC 4 (which is NACE rev 2).



F. Construction	1%	2%	-1%
G. Wholesale and retail trade	34%	41%	-7%
H. Transportation and storage	1%	1%	0%
I. Accommodation and food services	6%	2%	4%
J. Information and communication	3%	0%	3%
K. Financial and insurance activities	0%	0%	0%
L. Real estate activities	1%	0%	1%
M. Professional, technical services	3%	1%	2%
N. Admin and support services	2%	0%	2%
P. Education	2%	1%	1%
Q. Human health and social work	1%	0%	1%
R. Art, entertainment and recreation	1%	1%	0%
S. Other services	8%	2%	5%

Source: GEM Armenia: Adult Population Survey, 2019

To analyze the sectorial breakdown of different countries GEM classifies economic activities by another analytical breakdown into four groups:

- Extractive (including agriculture and mining)
- Transformative (construction, manufacturing, transportation, utilities, and wholesale)
- Consumer Services (retailing, restaurants and personal services)
- Business Services (information and communication technologies (ICT) and professional services).

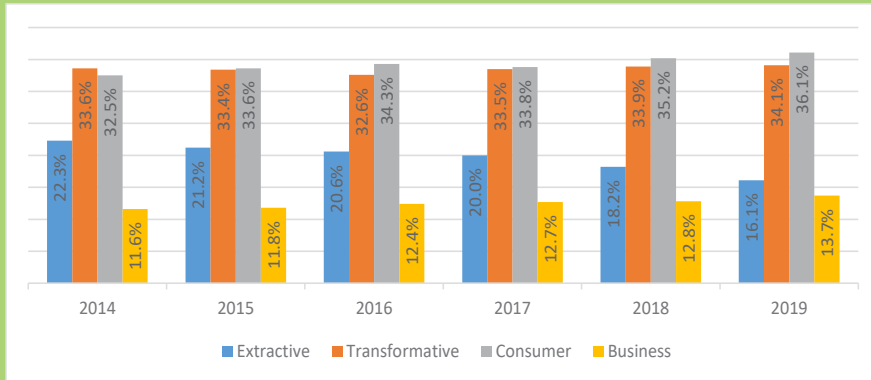
According to GEM, the distinction between Business and Consumer Services is an important one in the analysis of new entrepreneurial activity. Many Consumer Services are relatively low-cost, with low entry barriers (such as coffee shops, taxi services, hairdressing, tailoring, etc.) but can therefore be fiercely competitive, with low margins and considerable churn (high rates of entry and exit). Business Services entrepreneurial activities tend to be more technology- or knowledge-intensive and more difficult to replicate, also leading to more durability. One of the key transformations in developed economies in past decades has been the



growth of Business Services and the (relative) decline of Consumer Services. Emerging economies usually have low share of Business Services entrepreneurs and higher share of Consumer Service entrepreneurs.

*Insert 2.*

*The Structure of Armenian GDP in 2014–2019 by GEM defined 4 sectors*



*Source: calculated based on Armstat's data on GDP by activities*

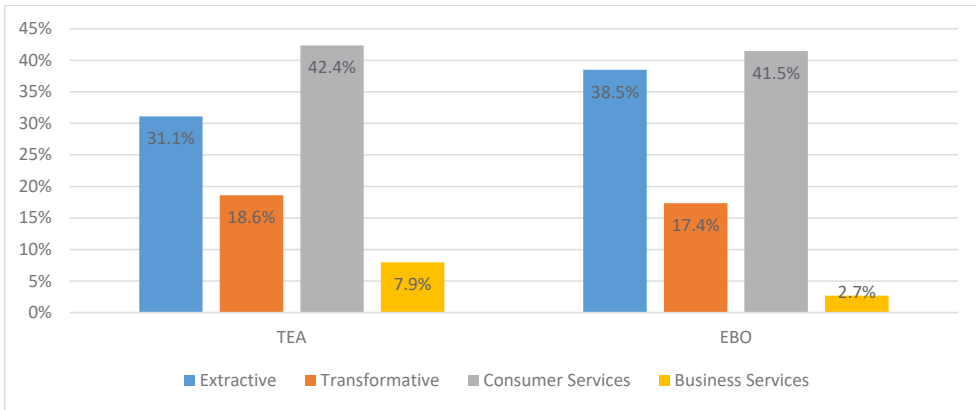
- ▶ *Consumer services have the largest share, also have been increasing during recent years*
- ▶ *Business services have the smallest share, but have been increasing during recent years*
- ▶ *Extractive sector has been decreasing (mainly due to agriculture)*
- ▶ *Transformative sector has been relatively stable.*





**Armenia entrepreneurship is concentrated largely in Extractive sector (due to Agriculture) and Consumer services (due to retail trade).** Concentration into these two sector groups is higher for EBO, while there is an increase in share of Transformative sector (due to Manufacturing) and especially Business Services (ICT and professional services) for early-stage entrepreneurship, which is a positive sign for changes in structure of entrepreneurship in a country.

**Figure 16. TEA and EBO structure by GEM sector groups in Armenia**

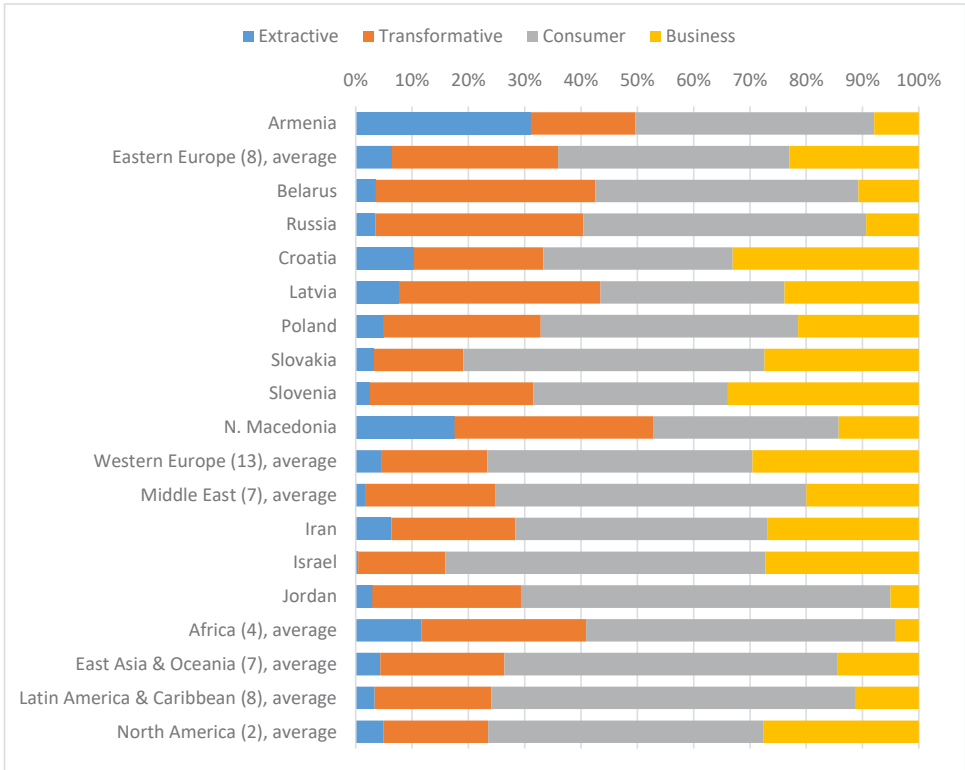


Source: GEM: Adult Population Survey, 2019

The economic sector distribution of entrepreneurship in Armenia is largely different from other countries in GEM. If agriculture has very low share in entrepreneurship for most of the countries, it takes 1/3<sup>rd</sup> of all entrepreneurial activity in Armenia. This have to be taken into account when comparing any indicator of Armenian entrepreneurship with other countries. Armenia has the highest share of Extractive sector among all GEM 2019 countries in TEA and EBO, while the share of Business Services in entrepreneurship is among the lowest (42<sup>nd</sup> for TEA and 45<sup>th</sup> for EBO).



**Figure 17. TEA structure by GEM sector groups in Armenia and other countries/regions**



Source: GEM: Adult Population Survey, 2019

The share of each activity in TEA and EBO for different countries does not accurately reflect the size of particular activity per capita, as TEA and EBO levels are quite different. To compare countries, the share of adults engaged in each activity group is more relevant. Particularly, if Armenia is 42<sup>nd</sup> among 50 GEM countries with the share of Business services in TEA, then by share of population engaged in TEA Business services is 1.7%, which is 30<sup>th</sup> among 50 countries. With these per capita indicators, Armenia is on 11<sup>th</sup> position by indicator of engaged in Transformative sectors (3.9% of adults) in early-stage entrepreneurship, 13<sup>th</sup> by Consumer services (8.9% of adults) and 1<sup>st</sup> by Extractive sector (6.5% of adults).

The highest engagement in Business services for established businesses is noticed for USA (3.9% of adults) and Netherlands (3.5% of adults), while Chile has the highest engagement in Business services for TEA (7.3% of adults), USA is the second one here (5.6% of adults).



**Figure 18. TEA and EBO by GEM sectors (% of adults) by countries/regions**

	TEA, % in adults				EBO, % in adults			
	Extractive	Transformative	Consumer	Business	Extractive	Transformative	Consumer	Business
Armenia	6.5	3.9	8.9	1.7	3.0	1.4	3.2	0.2
<b>Eastern Europe (8), average</b>	<b>0.6</b>	<b>2.7</b>	<b>3.8</b>	<b>2.1</b>	<b>0.8</b>	<b>2.5</b>	<b>2.6</b>	<b>1.5</b>
Belarus	0.2	2.3	2.7	0.6	0.1	1.1	1.2	0.4
Russia	0.3	3.5	4.7	0.9	0.1	2.5	2.1	0.3
Croatia	1.1	2.4	3.5	3.5	0.7	0.8	1.0	1.1
Latvia	1.2	5.5	5.0	3.7	2.1	4.7	3.1	2.9
Poland	0.3	1.5	2.5	1.2	0.8	4.1	5.4	2.5
Slovakia	0.4	2.1	7.1	3.7	0.1	1.1	3.3	1.4
Slovenia	0.2	2.3	2.7	2.6	0.8	2.7	2.6	2.3
N. Macedonia	1.1	2.2	2.0	0.9	1.3	3.4	2.3	0.9
<b>Western Europe (13), average</b>	<b>0.4</b>	<b>1.7</b>	<b>4.3</b>	<b>2.7</b>	<b>0.8</b>	<b>1.9</b>	<b>3.1</b>	<b>2.2</b>
<b>Middle East (7), average</b>	<b>0.2</b>	<b>2.8</b>	<b>6.7</b>	<b>2.4</b>	<b>0.3</b>	<b>1.7</b>	<b>2.5</b>	<b>1.2</b>
Iran	0.7	2.4	4.8	2.9	0.9	3.1	3.7	2.5
Israel	0.1	2.0	7.2	3.5	0.2	1.3	2.2	1.8
Jordan	0.3	2.4	6.0	0.5	0.7	1.9	3.6	0.3
<b>Africa (4), average</b>	<b>1.4</b>	<b>3.5</b>	<b>6.6</b>	<b>0.5</b>	<b>1.4</b>	<b>2.3</b>	<b>4.5</b>	<b>0.1</b>
<b>East Asia &amp; Oceania (7), average</b>	<b>0.4</b>	<b>2.1</b>	<b>5.6</b>	<b>1.4</b>	<b>0.7</b>	<b>2.6</b>	<b>4.9</b>	<b>1.1</b>
<b>Latin America &amp; Caribbean (8), average</b>	<b>0.8</b>	<b>5.0</b>	<b>15.5</b>	<b>2.7</b>	<b>0.4</b>	<b>2.5</b>	<b>4.9</b>	<b>0.7</b>
<b>North America (2), average</b>	<b>0.9</b>	<b>3.3</b>	<b>8.7</b>	<b>4.9</b>	<b>0.9</b>	<b>2.0</b>	<b>3.0</b>	<b>3.1</b>

Source: GEM: Adult Population Survey, 2019

**Younger entrepreneurs are more engaged in trade, while older ones – in agriculture.** Extractive sector (agriculture mainly) is predominating sector of activity for entrepreneurs in 55–64 age group (over 50% for TEA and EBO). The share of being involved in Extractive sector decreases with age decrease especially for early-stage entrepreneurship. Less entrepreneurs from young age groups start business in extractive sector compared to established business, which means the share of extractive sector will decline in Armenian entrepreneurship in next years. Correspondingly the share of engagement in Consumer services (retail trade mainly) is increasing with age decrease (around 50% of entrepreneurs between 18–34 age are engaged in Consumer service sector). Transformative sector has a bit higher share in TEA compared to EBO, but no age tendency is noticed. So increase in share of transformative sector in TEA, perhaps, is explained with changes in environment and more favorable economic conditions for the sector in the last year.

**Business services sector (ICT and professional services) has the smallest share in Armenian entrepreneurship, but it shows the largest growth trends.** Particularly, the share of Business services in TEA is almost 3 times higher compared to its share in EBO. The increase of engagement in Business services sector is visible for all age groups, but especially in the youngest 18–24 age group.



**Table 11. Sectorial structure of TEA and EBO for age groups and gender (% in each age and gender group)**

Age	Early-stage (TEA)					Established business (EBO)				
	18-24	25-34	35-44	45-54	55-64	18-24	25-34	35-44	45-54	55-64
Extractive	19.6%	23.8%	30.3%	38.1%	54.4%	38.6%	33.1%	31.2%	37.7%	53.6%
Consumer serv	49.0%	51.8%	41.2%	31.7%	23.5%	50.6%	40.1%	46.6%	38.5%	36.8%
Transformative	17.1%	16.8%	20.8%	24.6%	15.8%	10.8%	19.8%	22.2%	21.6%	6.1%
Business serv.	14.2%	7.7%	7.7%	5.7%	6.3%	0.0%	7.0%	0.0%	2.3%	3.5%

Gender	Male	Female	Total	Male	Female	Total
Extractive	35.4%	25.6%	31.1%	37.0%	41.6%	38.5%
Consumer serv	34.7%	52.2%	42.4%	42.7%	38.8%	41.5%
Transformative	22.4%	13.6%	18.6%	18.5%	15.0%	17.4%
Business serv.	7.5%	8.5%	7.9%	1.8%	4.6%	2.7%

Source: GEM Armenia: Adult Population Survey, 2019

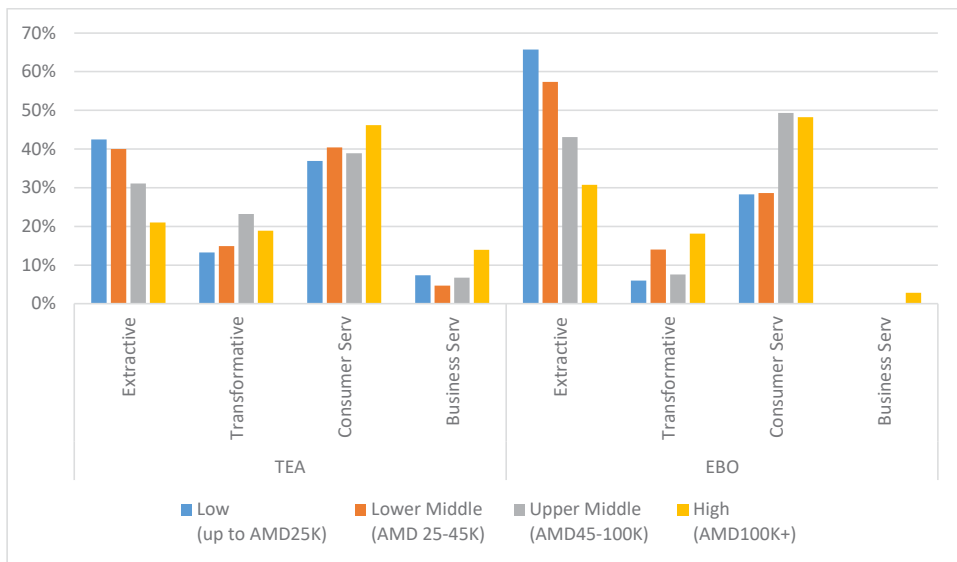
There are also gender differences by sectors. Male entrepreneurs are still active in Extractive sector during early-stage entrepreneurship, while female entrepreneurs have higher engagement in Consumer services sector in early-stages compared to established business. Both sexes entrepreneurs have higher engagement in Business service sector in early-stage entrepreneurship compared to established business stage, which is an evidence of development of Business services sector in Armenian entrepreneurship.

**The lower is the income of entrepreneur, the higher is the share of entrepreneurship in agriculture.** Sectorial distribution of entrepreneurship in early stages and established business stage is very different by per capita income groups of population in Armenia. The higher the income of entrepreneurs the lower is the share of extractive sector in entrepreneurship. This is true for TEA and EBO. Extractive sector is the most popular for entrepreneurship for two lower groups of population by income, while for two higher income groups the most popular sector of entrepreneurship is Consumer services sector.



Transformative and Business services sectors also have higher share for higher income groups of entrepreneurs. **High share of Extractive sector in Armenian entrepreneurship indicates issues with poverty, as even within the country agriculture is not preferred by higher income groups of population. The share of Extractive sector entrepreneurship will decrease with further development in the economy in case if income inequalities decrease in the country.**

**Figure 19. Sectorial structure of TEA and EBO for income groups of population (% in each income group)**



Source: GEM Armenia: Adult Population Survey, 2019

**Another explanation of high share of Extractive sector in Armenian entrepreneurship is the lack of other than agriculture choice for entrepreneurship in rural areas.** Around 55% of all entrepreneurial activity by rural population is in Extractive sector (both for TEA and EBO), while Consumer services and Transformative sector are more widespread in Yerevan and other urban settlements. Comparing TEA with Established business by types of settlements, increase in Consumer and Business services is noticed, while share of Transformative sector decreases.



**Table 12. Sectorial structure of TEA and EBO for types of settlements (% in each type of settlement)**

	Early-stage (TEA)			Established business (EBO)		
	Yerevan	Other urban	Rural	Yerevan	Other urban	Rural
Extractive	5.9%	17.3%	54.8%	5.4%	4.8%	55.9%
Transformative	26.4%	22.0%	11.6%	35.8%	48.6%	5.5%
Consumer serv.	52.5%	51.5%	31.3%	46.9%	46.6%	38.7%
Business serv.	15.1%	9.2%	2.3%	11.9%	0.0%	0.0%

Source: GEM Armenia: Adult Population Survey, 2019

### 3.5 Entrepreneurial employee activity and sponsored entrepreneurship

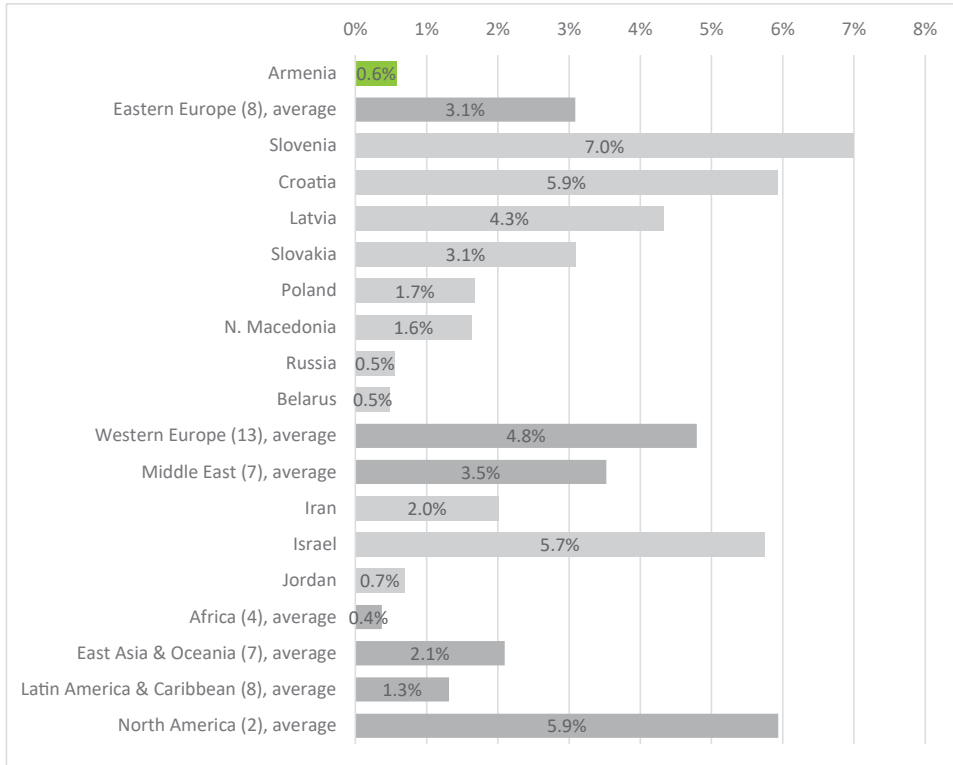
Entrepreneurship is perceived as an individual activity in practice in many cases entrepreneurial activity is conducted with, and for, others. Particularly, there are cases, when employee identifies, develops and pursues new business activities as part of their job for his employer. This type of entrepreneurship (“intrapreneur”) is defined as employee entrepreneurial activity (EEA). As it is already mentioned, EEA is very important for a country as it ensures continuous innovation in larger organizations. The GEM APS asks whether individuals are developing new activities for their employer, such as developing or launching new goods or services, or setting up a new business unit. This question allows to understand and analyze the level of EEA in different economies.

**Only 0.6% of adults in Armenia are engaged in employee entrepreneurial activities according to GEM 2019 APS results.** Armenia is on 39<sup>th</sup> position among 50 GEM 2019 countries by indicator of EEA. Australia, UAE and United Kingdom are the leaders with over 8% of adults engaged in EEA. The highest indicators are noticed in Europe mainly, while Armenian indicators is comparable to Russia and Belarus.

**Unlike TEA or EBO, the level of EEA in country is highly explained by the income level of the country.** Particularly, the level of EEA has strong correlation (0.68) with GDP per capita indicator and has negative correlation with the level of poverty (-0.52) and Gini coefficient (-0.41).



**Figure 20. Level of EEA (% of adults) by countries/regions**



Source: GEM Adult Population Survey 2019

*Low level of EEA in Armenia speaks about issues with transfer of R&D and innovation in large companies in the country, which affects their competitiveness outside of the country at least. Of course, the level of EEA in Armenia is close to other countries in Eurasian Economic Union, but it is significantly lower compared to developed countries.*

The low level of EEA can be explained by the existing economic and political system in a country, which is linked with the mentality of a nation. According to the thesis developed towards “Inclusiveness” and “Extractiveness” of economic and political institutions in a country in “Why Nations Fail” by Daron Acemoglu and James Robinson, countries prosper when they accept “inclusive” system of economy and governing. It means many people are involved and have a say in decision-making processes. While countries with “extractive” heritage are not prospered, as entrepreneurs and individuals have less incentives to invest and innovate in these countries. According to this book, Soviet countries

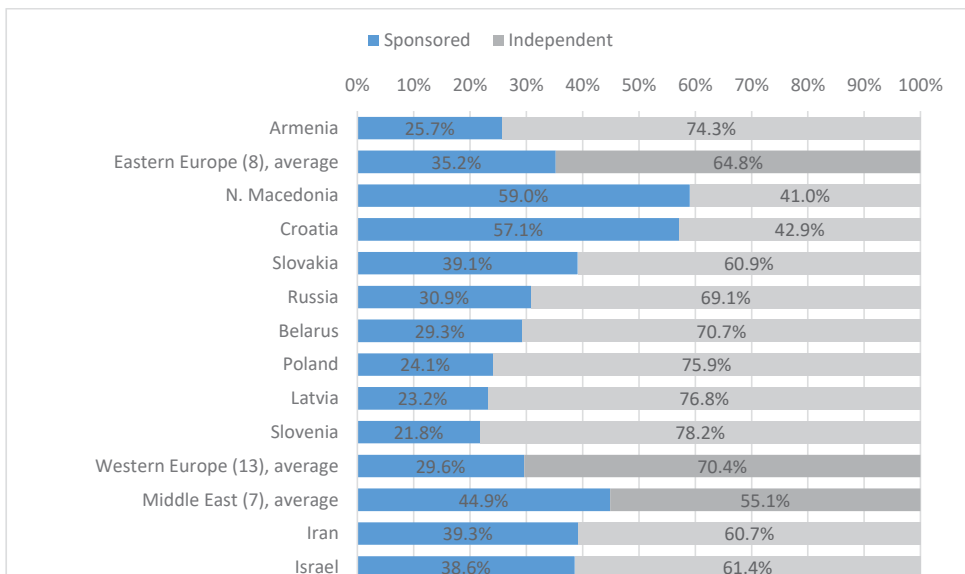


were in the second group. Armenia, likewise, other Eurasian Economic Union countries, being post-Soviet countries still bear elements of “Extractive” system. After “Velvet” revolution, Armenian government tries to adopt “Inclusive” approaches in economic development. But even if it succeeds, the results will not be visible in a short period of a time.

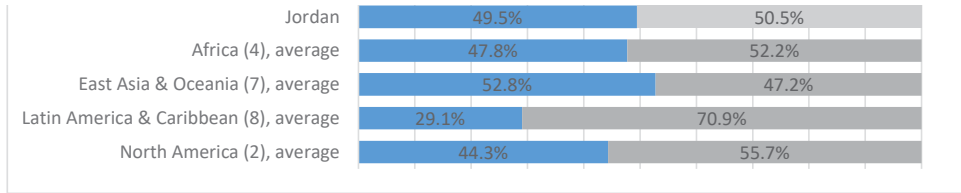
GEM Adults Population Survey gave opportunity to identify the business owners (either new starters or established ones), whose business is independent (or autonomous) of a larger business and the ones whose business is sponsored through shared ownership with the employer. The reason to look at this kind of information is to enable levels of entrepreneurship to be balanced against levels of intrapreneurship within an economy. The share of sponsored entrepreneurship against independent entrepreneurship shows the level of engagement of larger businesses in creating new entrepreneurial units in the country.

**The shares of sponsored entrepreneurship in TEA and EBO in Armenia are among the lowest in 50 GEM APS countries.** Particularly, the share of sponsored businesses in TEA is 25.8% (37<sup>th</sup> out of 50 GEM countries) and the share of sponsored businesses in EBO is 16.8% (43<sup>rd</sup> out of 50 GEM countries). This also means that independent businesses have larger share in entrepreneurship in Armenia. The highest level of sponsored entrepreneurship is noticed in Oman (98% in TEA and 100% in EBO), where local partner is required for any new business.

**Figure 21. Shares of sponsored and independent entrepreneurship in TEA (% of adults) by countries/regions**







Source: GEM Adult Population Survey 2019

### 3.6 Conclusion

- ▶ Two main types of entrepreneurship are identified by GEM: entrepreneurs and intrapreneurs. Entrepreneurs have 3 stages of development: nascent entrepreneur (started a business less than 3 month ago), baby business- es (a business activity within 3 to 42 months) and established business owners (over 42 months activity). The first two are defined as TEA, while established business (EBO) is discussed separately. Intrapreneurs are people who identify, develop and pursue new business activities as part of their job. Employee entrepreneurial activity (EEA) is also important indicator for a country as it is a part of entrepreneurial environment. EEA is very important for a country as it ensures continuous innovation in larger organizations.
- ▶ Armenia registered high rate of TEA in 2019. With 21.0% of adults engaged in early-stage entrepreneurial activity, Armenia is 7th among 50 GEM 2019 countries and it the leader in Eastern European region.
- ▶ High level of TEA in countries shows correlation with level of income inequalities in a country and individual assessment of characteristics of population such as “personally have the knowledge, skill and experience required to start a new business”, “other people think they are highly innovative”.
- ▶ Armenia is in average positions with EBO indicator (23<sup>rd</sup> out of 50 countries) with 7.8% of adults. This may mean that there are comparably more issues and challenges for early-stage entrepreneurs in Armenia to transform their business into a sustainable business.



- ▶ Armenia is on 40th position by EBO/TEA ratio. Analysis of EBO/TEA ratio of countries shows that businesses started in a country with higher income inequalities and with the motivation “to earn for living” have less chances to become sustainable. Also overestimating their skills and knowledge to start a business may negatively impact the transformation of early-stage business into a sustainable one.
- ▶ There is a need for entrepreneurship education and trainings in the country to support businesses to succeed in transformation from early-stages to sustainable business.
- ▶ Armenia entrepreneurship is concentrated largely in Extractive sector (due to Agriculture) and Consumer services (due to retail trade). Around 83% of EBO and 63% of TEA in Armenia are engaged in agriculture or trade.
- ▶ Armenia has the highest share of Extractive sector among all GEM 2019 countries in TEA and EBO, while the share of Business Services in entrepreneurship is among the lowest (42nd for TEA and 45th for EBO). One of the key transformations in developed economies in past decades has been the growth of Business Services.
- ▶ High share of Extractive sector in Armenian entrepreneurship indicates issues with poverty, as even within the country agriculture is not preferred by higher income groups of population. The share of Extractive sector entrepreneurship will decrease with further development in the economy in case if income inequalities decrease in the country.
- ▶ Only 0.6% of adults in Armenia are engaged in employee entrepreneurial activities (39th position out of 50). Unlike TEA or EBO, the level of EEA in country is highly explained by the income level of the country (GDP per capita).
- ▶ Low level of EEA in Armenia speaks about issues with transfer of R&D and innovation in large companies in the country, which affects their competitiveness outside of the country.
- ▶ Male population is more active in entrepreneurship than female population in Armenia. This is usual in most of the countries in GEM 2019. Even if Armenia is in Top-10 countries by TEA for both gender groups (4th for male and 9th for female), comparison shows that female engagement in



entrepreneurship compared to male in Armenia is lower than world average. It should be mentioned that 21 out of 50 countries have worse ratio of female and male TEA, including many countries from Europe.

- ▶ Women entrepreneurs as well as all entrepreneurship in other urban areas need special support in Armenia.

GEM national team had imposed hypothesis regarding entrepreneurial activities for TEA and EBO in Armenia before the surveys. APS results come to confirm or reject these hypotheses.

### **1. The Armenians are more inclined to be involved in entrepreneurial activities compared with the rest countries.**

*The hypothesis is confirmed.* Armenia registered one of the highest levels of early stage entrepreneurship among GEM 2019 countries. The level is also much higher among compared to Eurasian Economic Union countries like Russia and Belarus (21% vs 9% and 6% respectively).

### **2. Age is determining factor for entrepreneurship in Armenia.**

*The hypothesis is confirmed.* As in most of the countries, the most active age group in Armenia by TEA are people within 25–34 age group. The engagement in TEA declines with the age. While in EBO, the most active age group is 45–54, so engagement in EBO is increasing up to this age group.

### **3. The share of the people trying to be entrepreneurs in Armenia especially among young ages for both genders is comparably higher.**

*This hypothesis is confirmed partially,* as it is true for TEA and not for EBO. It is not true also for 18–24 age group, which is not the largest by share of entrepreneurs in TEA, but over 30% of 25–34 age group is engaged in TEA. This age group is the most active in TEA for both gender groups. 37% of male and 24% of female in this group are engaged in TEA. In all age groups the engagement of male is higher compared to female. This difference is much lower in TEA compared to EBO, which indicates comparable increase of women in entrepreneurship.

### **4. The level of entrepreneurship is lower in rural areas rather than in Yerevan.**

*The hypothesis is rejected.* In rural areas 25.6% are engaged in TEA and 13.6% in EBO, while in Yerevan it is respectively 19.8% and 5.3%. The main explanation of difference is engagement in activities in Agriculture. There is lack of a choice for inhabitants in rural areas to earn for living compared to Yerevan, where population



have also more chances to be employed in larger businesses. Entrepreneurship in other than agriculture is also higher in Yerevan compared to rural areas.

**5. The type of preferred activities of entrepreneurship is different for rural and urban areas: services in Yerevan and other urban areas and agricultural production in rural areas.**

*The hypothesis is confirmed.* Around 55% of all entrepreneurial activity by rural population is in Extractive sector (both for TEA and EBO), while in Yerevan and other urban settlements the leading sector is Consumer services (with 52% share in TEA and 47% share in EBO).

**6. One of main reasons to be an entrepreneur is having no “boss”, in other words, Armenians want to be independent in their work.**

*The hypothesis is confirmed.* The shares of sponsored entrepreneurship in TEA and EBO in Armenia are among the lowest in 50 GEM APS countries. Particularly, the share of sponsored businesses in TEA is 25.8% (37<sup>th</sup> out of 50 GEM countries) and the share of sponsored businesses in EBO is 16.8% (43<sup>rd</sup> out of 50 GEM countries). This means that independent businesses have larger share in entrepreneurship in Armenia compared to majority of GEM countries.

**7. The post-Soviet Union provision towards entrepreneurship has negative impact on entrepreneurship activities.**

*The hypothesis is mainly rejected.* The level of Armenian early-stage entrepreneurship is among the highest within 50 GEM countries. Of course, the younger generation is more active in entrepreneurship than the older one, but it is usual effect observed in all the countries. Even if the impact of “soviet mentality” towards entrepreneurship still may be visible for older groups of population it does not have negative impact on current entrepreneurship level in Armenia.



# Chapter IV.

## Motivation and Aspirations: Why do Armenians start or run a business?

*“Innovation is the specific instrument  
of entrepreneurship...the act that  
endows resources with a new capacity  
to create wealth.”*

— **Peter Drucker**

## 4.1 Introduction

The reasons to start a business can be as many as there are people willing to start it. Among the reasons can be the motivation of population to seek higher income and wealth, continue family business, to follow innovations and make difference, or simply seek alternative job options. The reasons that motivate individuals to act may illustrate the overall socio-economic conditions of the environment where adults initiate entrepreneurial activities.

Besides the motivation, these businesses have expectations and aspirations, which may impact the economies. GEM also demonstrates the impact entrepreneurs have across the world by introducing innovations into their societies, creating jobs, competing globally, and contributing to the emergence and growth of industries. Overall impact of entrepreneurship on job creation, internationalization of economy and innovation transfer is analyzed. Particularly this is based on : how many people businesses expect to employ, the market where they want to represent their products (national, regional, international, etc.), the revenue they expect mostly from international sales or novelty of their products and finally, the technology they are going to use. The current chapter is going to discuss all mentioned dimensions regarding motivation and impact.

## 4.2 The motivations to start a business

GEM aggregated the reasons of starting or running a business in four motivation statements. The GEM APS stated the following motivation statements for starting and running a business. The respondents agreed or disagreed with:

- ▶ To make a difference in the world (Difference),
- ▶ To build great wealth or very high income (Wealth),
- ▶ To continue a family tradition (Family),
- ▶ To earn a living because jobs are scarce (Living).

Respondents within APS framework could choose on a five-point Likert scale from strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree and strongly disagree. The respondents were free to agree or disagree with all applicable statements at once.

According to APS results, **the necessity-driven motivation “to earn a living because jobs are scarce” has the largest share for Armenian entrepreneurs both in early-stage and established stage** (Tables 13 and 14). Particularly 89% of TEA and 92% of EBO agreed to this motivation. Armenia is in top-10 countries with this motivation among all 50 GEM countries and is the first among 9 Eastern



European countries. **In opposite, the purpose-driven motivation “to make a difference in the world” has one of the lowest shares in Armenia compared to other countries in the world.**

**Table 13. Armenia vs GEM 50: Motivation for Early-stage entrepreneurship (TEA)**

Motivation statements	% agree to statement	Armenia's rank		GEM 50 country average	Difference with the World average, pp
		in all 50 GEM countries	in 9 countries E.Europe		
Difference	18.4%	47	9	46.2%	-27.8
Wealth	51.5%	30	4	55.2%	-3.7
Family	35.5%	21	4	35.6%	-0.1
Living	88.8%	8	1	63.4%	25.4

Source: GEM Adult Population Survey 2019

**Table 14. Armenia vs GEM 50: Motivation for Established businesses (EBO)**

Motivation statements	% agree to statement	Armenia's rank		GEM 50 country average	Difference with the World average, pp
		in all 50 GEM countries	in 9 countries E.Europe		
Difference	9.6%	48	9	39.1%	-29.6
Wealth	33.6%	38	6	49.9%	-16.3
Family	50.4%	13	3	41.4%	9.0
Living	92.9%	4	1	66.8%	26.1

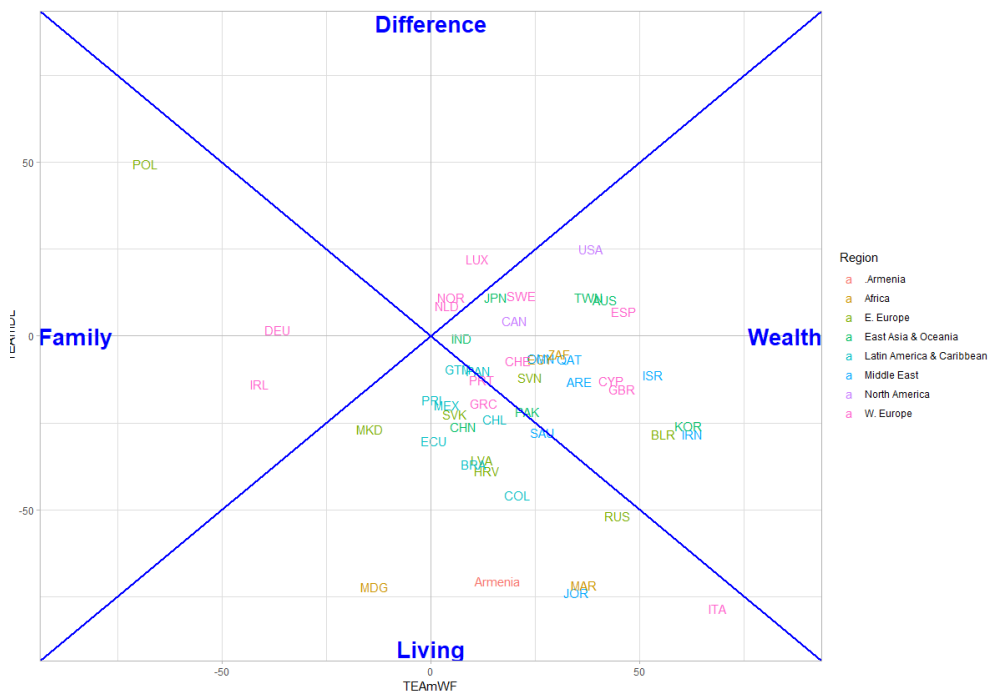
Source: GEM Adult Population Survey 2019

Comparing motivational changes between early-stage entrepreneurship and established businesses, we notice some positive changes in Armenia. More new businesses are motivated by “make difference in the world”, compared to established businesses and more new businesses are motivated by “building wealth or high income”, but the share of people with motivation “earn a living because jobs are scarce” remains almost at the same high rate. The difference between Armenia and the world by the first and last-mentioned motivations remains also almost stable (-29.6 and 26.1 pp).



Before moving to peculiarities of motivation for different groups and sectors in Armenia, we have tried to analyze motivational differences in the world. To do that we have developed a method to classify countries between 4 motivation groups by their TEA and EBO separately. First, we have found out that motivations “Difference” and “Living” have large negative correlation, likewise “Family” and “Wealth” also have large negative correlation. So, we put these motivations on opposite of each other on the graph coordinates. Then we have found x and y indicators for each country by difference between indicators of defined pairs of motivations. As a result, we have received Figures 22 and 23. These figures show the place of each country in GEM according to their main motivation towards entrepreneurship. The difference between these two figures shows also movement of the country’s entrepreneurs’ motivation, as Figure 22 is based on data of newly created businesses while Figure 23 is based on data of established businesses.

**Figure 22. Countries by Motivations for TEA**

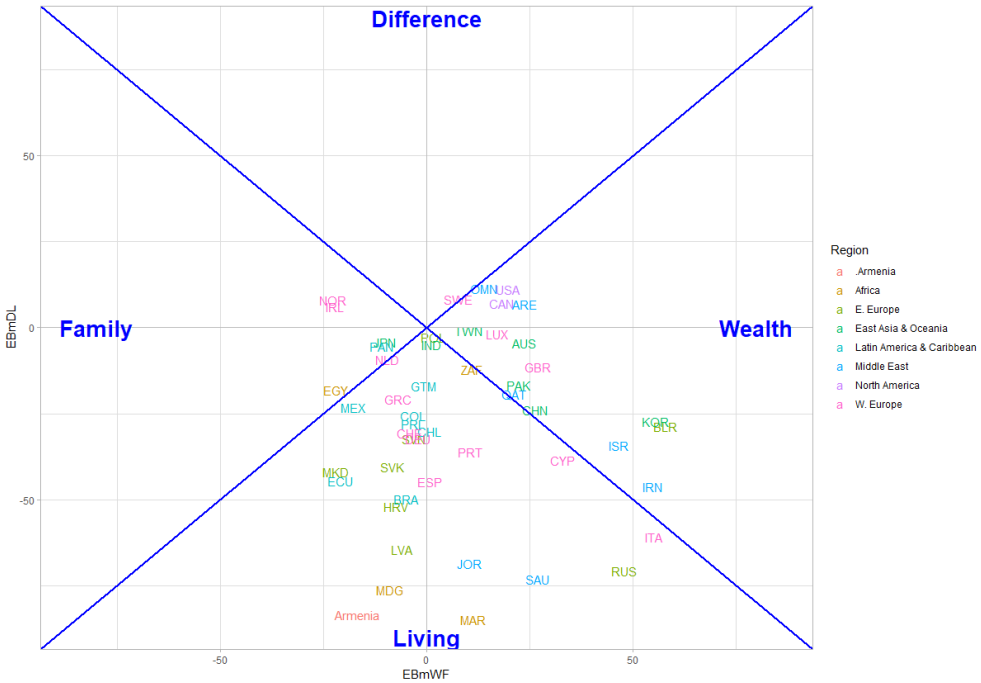


Source: GEM Armenia team, GEM Adult Population Survey, 2019.  
Country codes: ISO 3166-1, alpha-3





**Figure 23. Countries by Motivations for EBO**



Source: GEM Armenia team, GEM Adult Population Survey, 2019.  
Country codes: ISO 3166-1, alpha-3

Majority of countries are in “Living” or “Wealth” motivation quarters. There are only 3 countries (Ireland, Poland and Germany), where new entrepreneurs are more motivated by “continue a family tradition”. The difference between two graphs shows that only established business from Ireland is in that quarter (from mentioned 3 countries). Established businesses of Norway, Japan and Panama are also in the quarter of “Family”, but motivation of new businesses in these countries have changed.

There are only 3 countries which appear in the quarter of “make difference in the world”. These are Netherlands, Norway and Luxembourg. There is no country where EBOs are in this quarter, so “making the difference in the world” motivation perhaps is related to development of Business services sector.

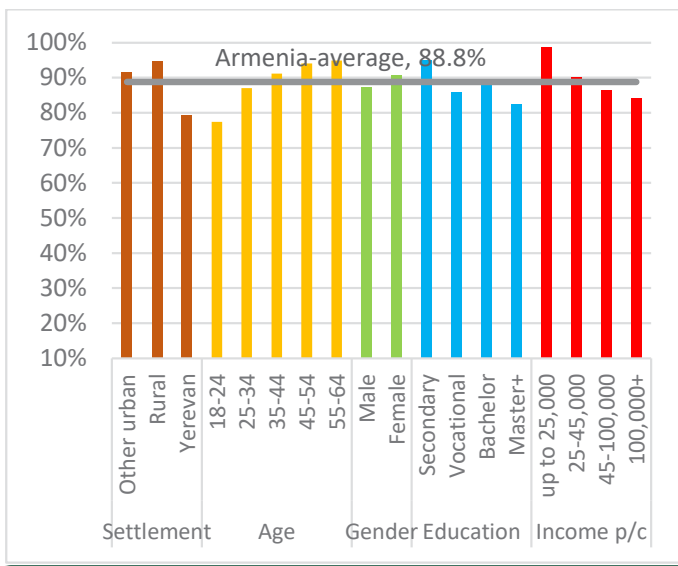
Many countries by TEA level appeared in the quarter of motivation on “to build great wealth or very high income”. It is visible that USA, Canada, Sweden, Japan, Taiwan and Spain are in the part which is closer to motivation of “making difference to the world”, while countries like Belarus, Iran and South Korea are closer to motivation of “earn a living because jobs are scarce”.



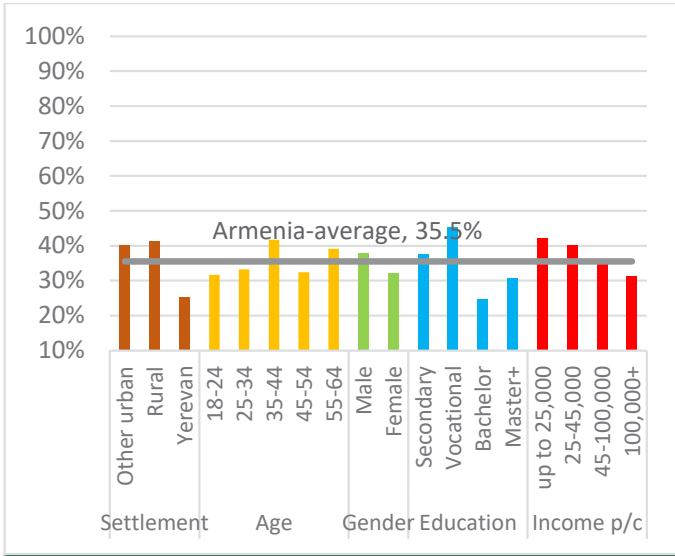
Many countries by TEA level appeared in the quarter of “Living”. These are not necessarily only countries with low or middle income. Particularly Italy is also here, but it is much closer to Wealth quarter. Armenia in both cases (TEA and EBO) appears in “earn a living” quarter. Comparing data for TEA and EBO for Armenia we see movement in direction to motivation of “Wealth”. This trend is noticeable for most of the countries. So overall trend of motivation changes in the world is movement from “Living” motivation into “Wealth”, and then perhaps to “Difference in the world”, where only 3 countries are present now.

**Figure 24. Armenia: Motivation to start a business (% of adults in TEA agreeing to statement) by different groups of population**

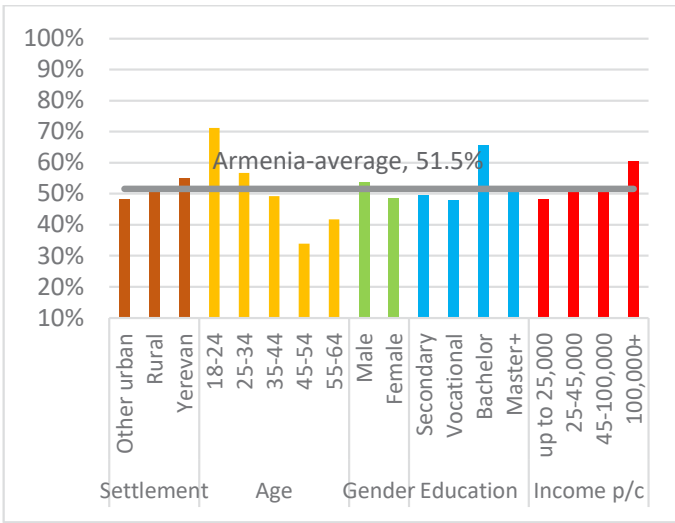
**a) “To earn a living because jobs are scarce”**



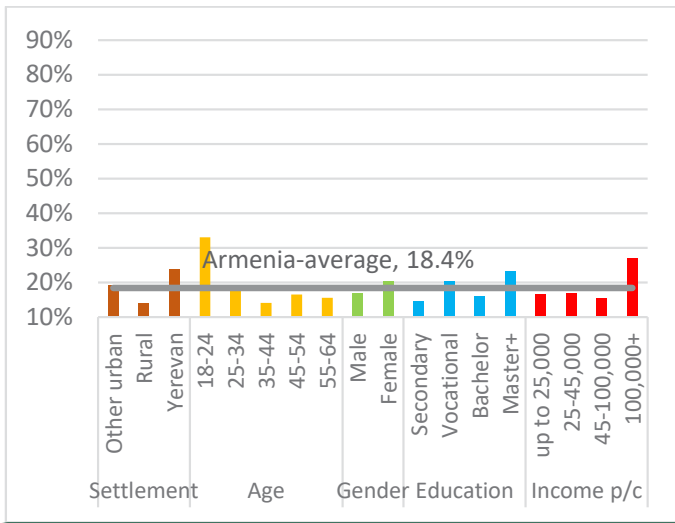
**b) “To continue a family tradition”**



**c) “To build great wealth or a very high income”**



**d) “To make a difference in the world”**



Source: GEM Adult Population Survey, 2019

Observing motivation to start a business for different groups of population in Armenia, we notice that motivation “to earn a living because jobs are scarce” is the most widespread motivation for all groups of population. It has higher share in rural areas compared to Yerevan, which is can be explained by lack of alternative income sources there, except perhaps agriculture. The share of “living” motivation is getting lower for younger age groups and also with increase in education and income per capita.

Regarding the second highest motivation in Armenia, which is “Wealth”, the trends are as opposite to “Living”, but not as clear as for living. Particularly, even if “Wealth” motivation share is increasing with increase in age, the share of the youngest group has large difference from others.

A compositive description of Armenian entrepreneur with the highest motivation “to build great wealth or a very high income” is a male from 18–24 age group with bachelor’s degree and from household with the highest income per capita (AMD100K+). This is also almost true for a motivation “to make a difference in the world”. In this case it is a female (not male) from 18–24 age group with bachelor’s degree and from household with the highest income per capita (AMD100K+), who is from Yerevan.

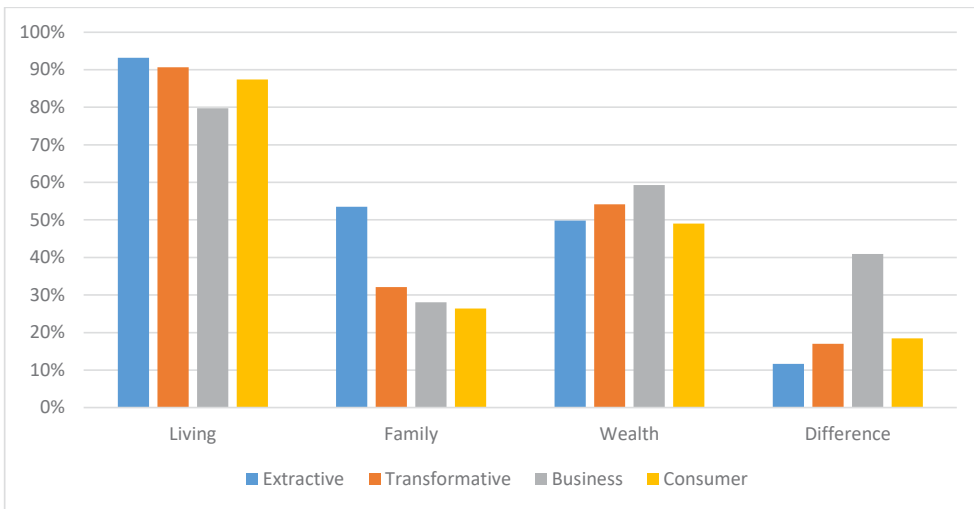
In term of preferences of motivation by gender, **females in Armenia (as also in most GEM countries) are more likely to agree with the statements “To make a difference in the world” and “To earn a living because jobs**



**are scare”** rather than men do. While males more agreed to the statements “To continue a family tradition” and “To build great wealth”. Women (in Armenia and in many other countries), usually have less obligation to do business in order to continue family traditions or accumulate wealth than men, so women start a business in two extreme cases: when they need to earn for living (in case if they or their families are in need) or when they want to change something in the world (mostly in case when they or their families are financially secured).

Population from Yerevan has comparably higher share in motivations “to build great wealth” and “to make difference in the world”, while population from rural areas have higher share in motivations on “to earn for living” and “to continue family traditions”. These differences can be explained when we look at the motivation of entrepreneurs by economic sectors where they do a business (Figure 25).

**Figure 25. Armenia: Motivation to start a business (% of adults in TEA agreeing to statement) by type of business/economic sector**



Source: GEM Adult Population Survey, 2019

Particularly, Extractive sector (mainly agriculture) is much more motivated by “to earn a living because jobs are scarce”. The share of this sector is large in Armenia due to activities in rural areas. This sector is also different from others by motivation “to continue family traditions”. Other urban areas have large shares of Consumer services (mainly trade) and Transformative sector (manufacturing, construction, etc.). The businesses in this sector do not differ



much from Extractive sector by motivations. In addition to Consumer services and Transformative sector, Yerevan has also comparably higher share of Business services (IT and other professional services). This sector is the most different by motivation from others. The entrepreneurs in this sector are much more motivated “to make difference in the world”, than other sectors and also have the highest share of motivation “to build great wealth and income”. This is the sector where majority of entrepreneurs are from young age groups, which also explains differences in motivations.

### 4.3 Impact: Activities and Aspirations

Individuals can be inspired by any factors to be involved in entrepreneurial activities dreaming to achieve some goals. While the future of any new started business is uncertain and there are some expectations and activities that may impact the likelihood of their success. The current section will discuss scope of entrepreneurs’ startups: their expectations on job creation and export, whether they have customers beyond their local areas and level of innovation in terms of new products and technologies. These factors are important to measure as they can have significant impact on long-term sustainable development processes on entrepreneurial environment in the country.

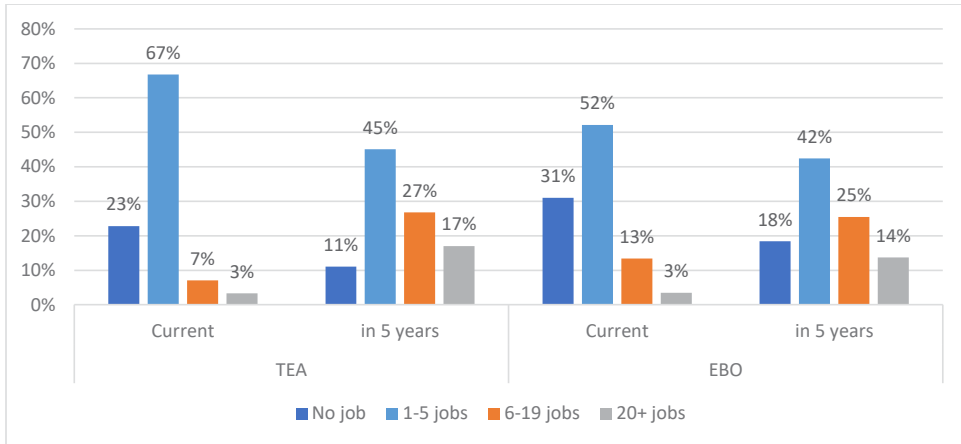
#### Growth expectation: Jobs

Even if the future of new business depends on their success, these businesses have impact on the economy through their current employment. Moreover, their expectations on jobs to be created can be also used to assess their possible impact in near future.

GEM questionnaire asks the respondents involved in TEA and EBO to mention how many people they employ now (without counting them as an owner/manager) and what is their expectation on how many people their business will employ in 5 years. As it can be seen from the Figure 26, 23% of TEA and 31% of established businesses do not provide jobs currently, and in fact act as one-man business. But majority of new businesses (67%) and established businesses (52%) provide 1-5 jobs.



**Figure 26. Armenia: Structure of TEA and EBO by job size of businesses (now and expected in 5 years)**



Source: GEM Armenia: Adult Population Survey, 2019

In both cases (TEA and EBO) expectations on number of jobs in their businesses is higher than now. Particularly if only 3% (in TEA and in EBO) have mentioned over 20 jobs currently, the share of businesses with over 20 jobs is expected to increase to 17% in TEA and 14% in EBO.

Analyzing data reported by respondents who are engaged in TEA and EBO, we may state on average currently each TEA creates 1.6 jobs, while each EBO – 4.1 jobs. Median values are more moderate, stating that median TEA in Armenia has no additional jobs and is a one-man business, while median EBO has 2 jobs more additional to the owner/manager. Median values are more representative in this case as outliers are not counted. It can be also noticed, that most jobs are in Business services sector (3.5 jobs additional to owner/manager in EBOs). Anyway, it should be noted this is the smallest sector in Armenia compared to others, but the size of this sector is increasing.

**Table 15. Armenia: Average and median number of current jobs in TEA and EBO by sectors and regions**

TEA					
by sectors			by regions		
	Average	Median		Average	Median
Extractive	1.0	0	Yerevan	2.4	0
Transformative	1.1	0	Other urban	0.8	0

Business	8.3	0	Rural	1.3	0
Consumer	1.1	0	<b>Armenia</b>	<b>1.6</b>	<b>0</b>
<i>EBO</i>					
<i>by sectors</i>			<i>by regions</i>		
	<i>Average</i>	<i>Median</i>		<i>Average</i>	<i>Median</i>
Extractive	2.5	2	Yerevan	9.1	2
Transformative	7.6	1	Other urban	3.1	1
Business	12.6	3.5	Rural	2.5	2
Consumer	2.9	2	<b>Armenia</b>	<b>4.1</b>	<b>2</b>

Source: GEM Armenia: Adult Population Survey, 2019

Business services sector (ICT and other professional services) TEAs and EBOs expect also the largest growth in their employment in 5-year period. The expected median growth for TEA in this sector is 11 more jobs, while for EBO – 25 more jobs. Compared to total median value of expected increase in jobs in Armenia (1 for EBO and 2 for TEA), growth of jobs in Business services sector is significant. Yerevan's businesses have larger expectations for increase in jobs (mainly due to expectations in Business services sector), while businesses in other cities expect less job increase compared to rural areas. This difference will be more significant, if we recall that share of TEA and EBO among the adults is also higher in rural areas.

**Table 16. Armenia: Average and median number of job increase expected (in 5-year period) by TEA and EBO, by sectors and regions**

<i>TEA</i>					
<i>by sectors</i>			<i>by regions</i>		
	<i>Average</i>	<i>Median</i>		<i>Average</i>	<i>Median</i>
Extractive	5.0	3	Yerevan	26.1	4
Transformative	17.4	2	Other urban	7.0	2
Business	37.3	11	Rural	4.5	2
Consumer	6.0	2	Armenia	12.3	2





EBO					
by sectors			by regions		
	Average	Median		Average	Median
Extractive	2.4	0	Yerevan	11.7	1
Transformative	10.5	2	Other urban	2.4	0
Business	32.3	25	Rural	3.6	1
Consumer	5.2	1	Armenia	5.4	1

Source: GEM Armenia: Adult Population Survey, 2019

Of course, not all of these businesses will succeed to be still active in 5 years and not all of their expectations of jobs increase will take place. However the analysis shows, that every TEA (the number of which in 2019 in Armenia is equivalent to 21% of adult population in Armenia) may create additional 2 more jobs in median values (or even 12 jobs in average values), which may provide jobs to significant share of population in Armenia. More jobs are expected to be created in Yerevan, as new growing Business services sector (ICT and professional services) is still represented in mostly in Yerevan.

Another interesting result is to analyze expectations of job creation according to entrepreneurs' motivation. The entrepreneurs who were motivated "to make a difference in the world" expect to create more jobs (in average 25 jobs) during the next five years that entrepreneurs' with other three motivations. Particularly those who were motivated by "to earn for living" factor (expected to create 10 jobs in average), those motivated by "to continue family business" expected to create 9 extra jobs in average, and those who are motivated by "building great wealth or high income" – 17 extra jobs. These results can be also explained by sectorial differences in expectations as entrepreneurs involved in Business services sector are more motivated by "to make difference in the world" statement. Therefore, in terms of job creation Business services sector can have more impact on economy's socio-economic environment.

### Internationalization: Market orientation

Another impact that entrepreneurship may have is market orientation (or internationalization). Market orientation according to GEM is assessed based on anticipated share of revenues of entrepreneurs form outside of a country. The higher is the share of revenues from abroad means higher internationalization of entrepreneurship and economy. Particularly, by convention, entrepreneurs have a strong international orientation, if a

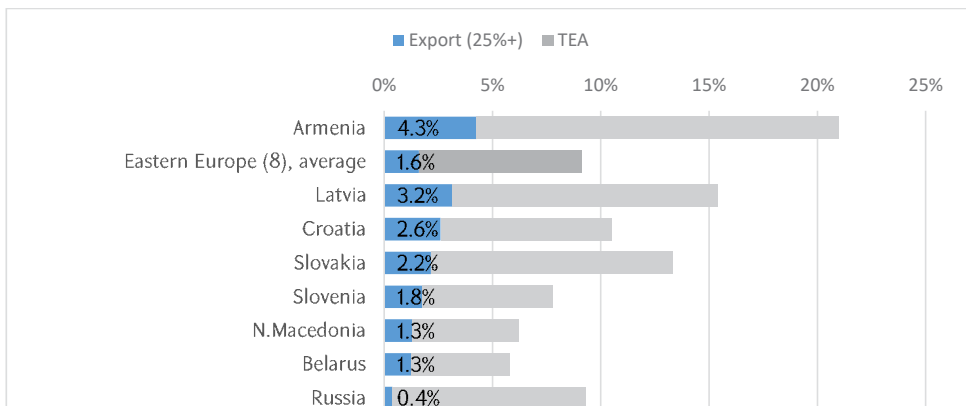


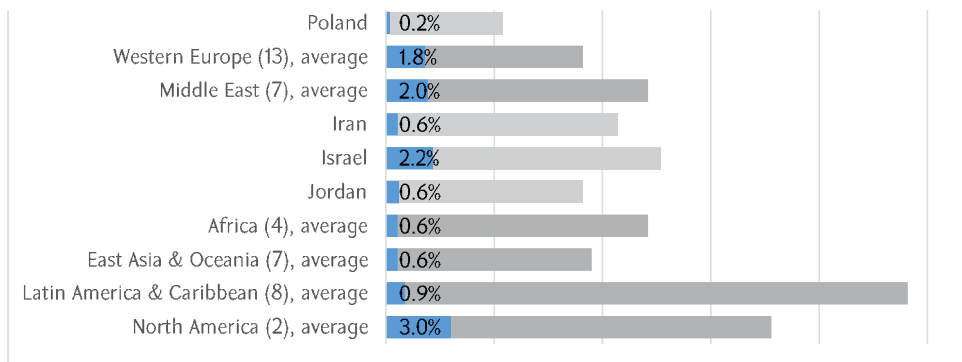
quarter or more of their revenue comes from customers outside of their country. Many factors can have positive impacts on internationalization and export. Among those are favorable trade policies, effective low-cost logistics, favorable duties or tariffs, it can be also common cultures and less barriers in terms of language with the trading country. There is also one more factor, which is the size of economy: the smaller is the domestic market, the larger is the probability of internationalization, if all else is equal.

**Armenia is the 3<sup>rd</sup> country with TEA internationalization indicator among GEM countries (after Canada and United Arab Emirates), where more than 4% of adults both starting or running a new business and anticipating 25% or more of revenue from outside their country.** The appearance of Armenia is top-3 countries here is explained also by relatively large share of TEA activity (21% of adults). Without considering the size of TEA and just looking at share of TEA which anticipate having more that 25% of their revenues from outside of their country, Armenia is on 14<sup>th</sup> position out of 50 GEM countries, with 20.3% indicator. The leader is Luxembourg (32.6% of TEA anticipating over 25% of their revenue from outside of the country), followed by Sweden, Canada and Switzerland. Among Eastern European countries Croatia, Slovenia, Belarus and North Macedonia have higher share compared to Armenia.

It is reasonable for Armenian entrepreneurs to be export-orientated, as the country has small market and businesses look for new opportunities outside of the country. Becoming a member of EAEU from 2015, Armenia now has favorable conditions in terms of tariffs and duties to common market of EAEU. According to Armstat, Russia is the biggest export destination for Armenian export of goods with 27.8% share in 2019.

**Figure 27. TEAs expecting to have more than 25% of their revenue outside of their country (% of adults)**





Source: GEM Adult Population Survey, 2019

APS results for Armenia different level of internationalization for early-stage businesses (TEA) and Established businesses (EBO). TEAs are more export orientated than EBOs (share of businesses with over 25% of revenues is 20.3% vs 17.1%). This difference perhaps shows that new business owners expect to use market opportunities in EAEU. Anyway, there are still many factors, which can have negative impact on Armenian export and may explain less internationalization of EBOs. Among these factors are less developed logistic system and geo-political location of Armenia. Armenia is a landlocked country. Land transfers are mostly done through the northern neighbor of Georgia, which is in fact the only corridor to the largest market to Russia and Europe. The southern neighbor of Iran is the other corridor – to the East. Despite the other possible risks of transportation, the big distance affects the cost of the products.

The difference between TEA and EBO with indicators of internationalization is also explained by changes in the sectorial structure of businesses. As it was presented in Chapter III, TEAs have larger share of Business services sector compared to EBOs. This sector, which includes ICT services, is more oriented to external markets. Particularly, if in average 20.3% of TEAs in Armenia anticipate over 25% of their revenues from abroad, over half of Business services sector TEAs expect over 25% of their revenues from abroad. Moreover, around 36% of this sector expects 75-100% of their revenues from abroad. The increase in orientation to foreign markets is also visible for Transformative sector.



**Table 17. Armenia: The structure of TEAs by sectors according the level of internationalization**

Export share in Revenues	Sectors				Total
	Extractive	Transformative	Business	Consumer	
75–100%	<b>3.0%</b>	<b>7.2%</b>	<b>35.8%</b>	<b>5.5%</b>	7.2%
25–75%	<b>5.4%</b>	<b>22.2%</b>	<b>15.9%</b>	<b>13.2%</b>	13.1%
1–25%	4.5%	6.9%	12.7%	13.8%	9.3%
No export	87.1%	63.7%	35.5%	67.5%	70.3%

Source: GEM Armenia: Adult Population Survey, 2019

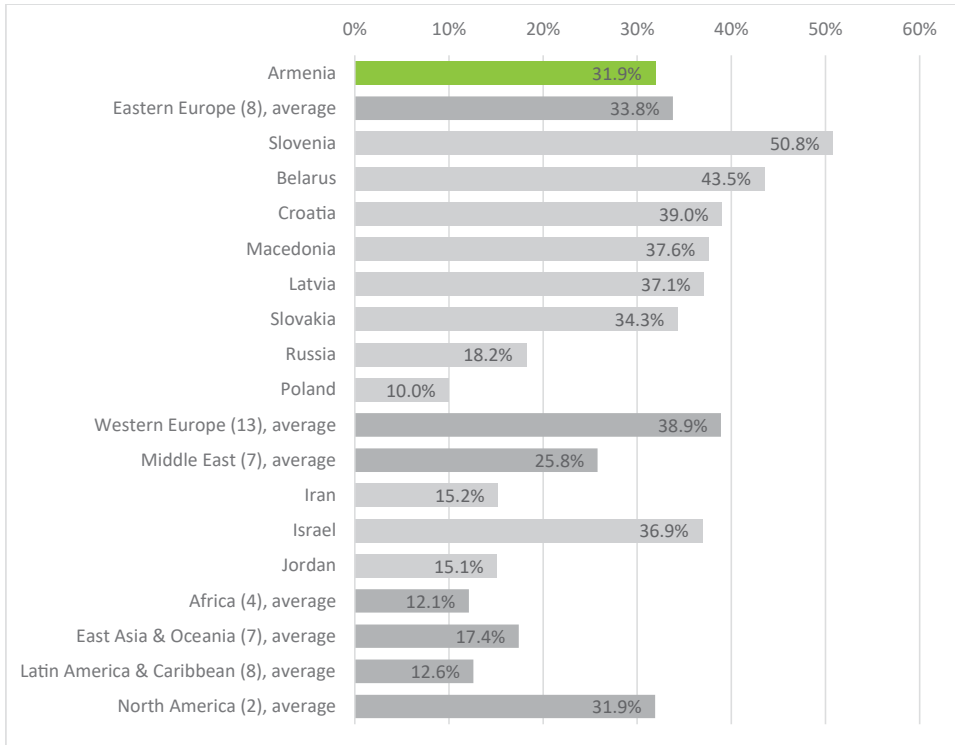
GEM data allows also analyzing the businesses by location of their customers not only in and out of the country but also at local and/or national levels. In Armenia, 79.6% of TEA have customers in the local area where they live, 71.3% have customers inside the national economy, while 31.9% have customers outside of the country. Comparing with other countries in GEM, Armenian TEAs have less customers in their local area (47<sup>th</sup> out of 50), which can be explained by small size of economy and centralization of population in Yerevan. The countries which have TEAs with highest focus on local area customers are Saudi Arabia and Russia with over 98% of TEAs having local area customers.

Armenia is in the middle range of counties with indicator of TEAs having customers in national economy (20<sup>th</sup> out of 50). The leaders here are TEAs from Puerto Rico, Qatar and Japan. Interesting that these countries are not among even top-30 by share of TEAs having local area customers, but here TEAs focus on national economy. Russia is 38<sup>th</sup> out of 50 with this indicator, which means Russian TEAs focus on local area, but not on national economy.

With the share of TEAs expecting to have customers from outside of their country Armenia is also at middle levels (21<sup>st</sup> out of 50 countries). European countries like Luxembourg, Slovenia and Germany are leaders with share of TEAs having customers outside of their economy (over 50%).



**Figure 28. Share of TEAs with or expecting customers from abroad (% in TEAs)**



Source: GEM Adult Population Survey, 2019

### Innovation: Product and production processes

New types of products and services (or innovation) is an important characteristic of new entrepreneurship. The products and services may be new for local market, national market and in the world. All this is a part of innovation in the economy called product innovation. Another part of innovation in the economy is process innovation, which is introducing new technologies or procedures in production process of products and services. To assess the level of innovation in entrepreneurship in different countries GEM introduced 2 questions:

- ▶ Are any of your products or services new to people in the area where you live, or new to people in your country, or new to the world?



- Are any of the technologies or procedures used for this product or service new to people in the area where you live, or new to people in your country, or new to the world?

**Around 28.8% of all TEAs (which is equivalent to 6.0% of population) in Armenia reported that they have product innovation** (including new to people in the area where you live, or new to people in your country, or new to the world). The share of product innovation is lower in EBOs: only around 19.3% of all EBOs in Armenia (or 1.5% of population) reported on product innovation.

As in all countries in GEM 2019 product innovation largely is new to people in local area, while product innovation which is new to the world is very small. According to the GEM global report, it is a rare phenomenon to introduce product or service, which is new to the world among all participating countries.

Comparing product innovation between the sectors, the largest share of product innovation is noticed in Business services (in Armenia over 56% of TEAs in this sector reported on product innovation), which is explained by new products and services produced by ICT services. As expected, the lowest share of product innovation is in Extractive sector (mainly agriculture).

**Table 18. Armenia: Product innovation in TEA and EBOs by sectors (% in all TEAs and EBs of each group)**

	<b>TEA</b>				
	Sectors				<b>Total</b>
	<i>Extractive</i>	<i>Transformative</i>	<i>Business</i>	<i>Consumer</i>	
No, not new products or services	82.7%	66.6%	43.9%	70.8%	<b>71.2%</b>
New to people in the area where you live	12.6%	15.7%	21.4%	21.5%	<b>17.3%</b>
New to people in your country	4.0%	12.3%	23.7%	7.0%	<b>8.8%</b>
New to the world	0.6%	5.4%	11.0%	0.7%	<b>2.7%</b>
	<b>EBO</b>				
	Sectors				<b>Total</b>
	<i>Extractive</i>	<i>Transformative</i>	<i>Business*</i>	<i>Consumer</i>	
No, not new products or services	94.9%	63.1%	–	80.4%	<b>80.7%</b>



New to people in the area where you live	5.1%	17.8%	–	13.4%	<b>10.3%</b>
New to people in your country	0.0%	16.0%	–	6.2%	<b>7.9%</b>
New to the world	0.0%	3.1%	–	0.0%	<b>1.1%</b>

\* the share of established businesses in Business services sector in sample is very small, so shares are not representative

Source: GEM Armenia: Adult Population Survey, 2019

Armenia is in the middle level between 50 GEM countries with the share of product innovation in TEAs (27<sup>th</sup> out of 50 countries). Luxembourg, Canada and Japan are leaders here with over 40% of TEAs reporting product innovation. Armenian indicator (28.8%) is almost twice higher compared Belarus and Russia. The share of TEAs in Armenia which have product innovation only new to their country or the world is almost similar to Belarus, UAE, and much higher than in Russia, Latin America countries, African countries. The share of TEAs with any product innovation in Armenia is much lower compared to most European countries, USA, Israel, Qatar, Taiwan, Australia and Iran. These countries also have significantly higher share of TEAs with product innovation “new to the world” than Armenia.

**Technology or process innovation in Armenian TEAs is lower compared to product innovation. Around 22.2% of all TEAs (which is equivalent to 4.7% of population) in Armenia reported that they have technology or process innovation** (including new to people in the area where you live, or new to people in your country, or new to the world). As in case of product innovation, the share of process innovation is even lower in EBOs: only around 16.3% of all EBOs in Armenia (or 1.3% of population) reported on process innovation.

Like in case of product innovation, process innovation is also more widespread in Business service sector activities, compared to other sectors, but the difference between product and process innovation is larger here, which means this sector is more focused on product innovation than process innovation. This is especially noticeable when comparing these two types of innovation in category “new to the world” (11% vs 0%).



**Table 19. Armenia: Process innovation in TEA and EBOs by sectors**  
 (% in all TEAs EBs of each group)

	TEA				
	Sectors				Total
	Extractive	Transformative	Business	Consumer	
No, not new technologies or procedures	87.2%	76.8%	55.4%	76.6%	<b>77.8%</b>
New to people in the area where you live	11.8%	10.2%	25.4%	16.9%	<b>15.1%</b>
New to people in your country	0.9%	9.2%	19.1%	5.1%	<b>5.7%</b>
New to the world	0.0%	3.8%	0.0%	1.4%	<b>1.5%</b>
	EBO				
	Sectors				Total
	Extractive	Transformative	Business*	Consumer	
No, not new technologies or procedures	96.4%	62.5%	-	87.1%	<b>83.7%</b>
New to people in the area where you live	3.6%	23.1%	-	6.3%	<b>7.8%</b>
New to people in your country	0.0%	11.4%	-	6.6%	<b>7.4%</b>
New to the world	0.0%	3.0%	-	0.0%	<b>1.1%</b>

\* the number of established businesses in Business services sector in sample is very small, so shares are not representative

Source: GEM Armenia: Adult Population Survey, 2019

Armenia is below average between 50 GEM countries with the share of process innovation in TEAs (36<sup>th</sup> out of 50 countries). Japan, North Macedonia and Canada are leaders here with over 41% of TEAs reporting process innovation. Armenian indicator (22.2%) is again higher compared to Belarus and Russia (below 20%).

It should be mentioned also that process or technology innovation is more related to opportunity to import new technologies which is conditioned by availability of finances and investments in the country. Low level of foreign direct

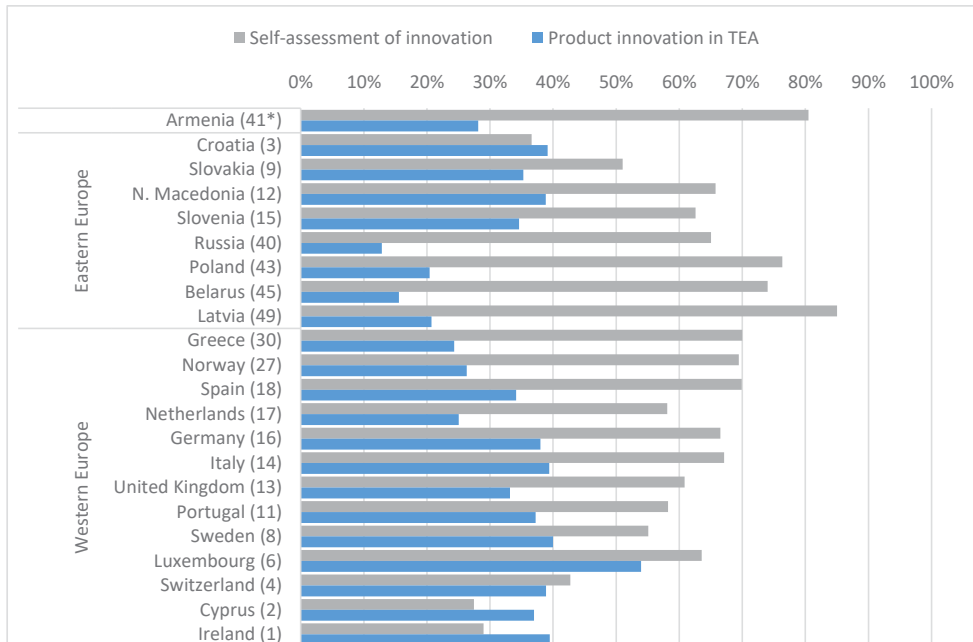


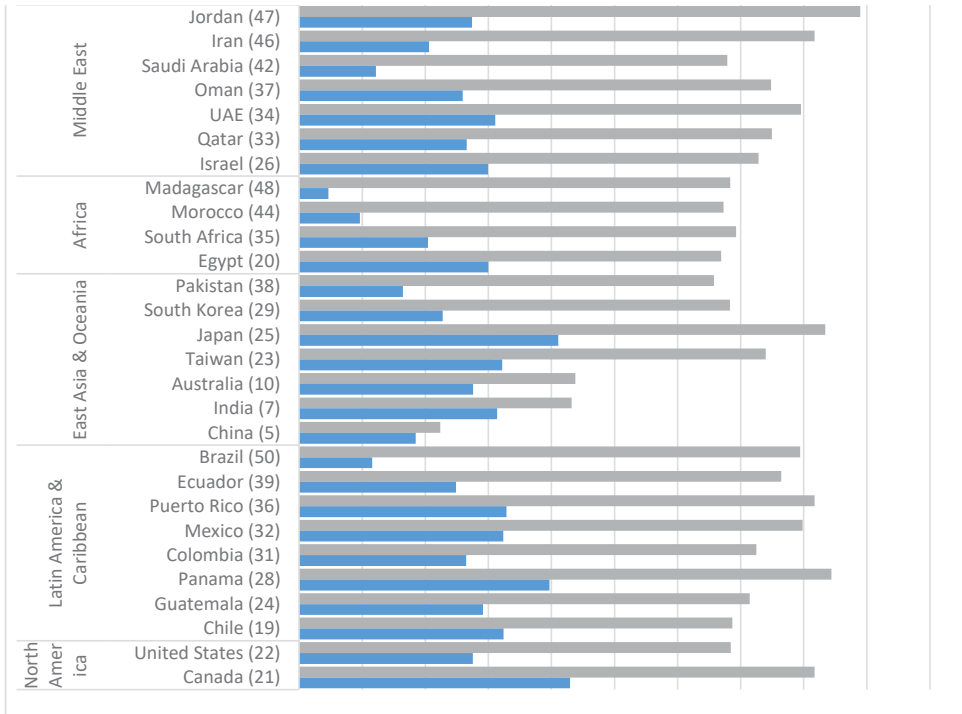


investments into Armenia during recent years also negatively affects the transfer of new technologies into businesses.

It is interesting to compare information on self-assessment “of being innovative” (see Chapter 2.5) with the innovation in entrepreneurship. Population in Armenia is among top-10 (8<sup>th</sup>) countries who reported themselves as innovative, while Armenia is on 27<sup>th</sup> position with product innovation and on 36<sup>th</sup> position with process innovation among TEAs. The difference between these two indicators can be used to assess the level of overestimation of innovativeness in a country. Armenian indicator is very high and Armenia is on 41<sup>st</sup> position among 50 countries (which means 9<sup>th</sup> highest overestimation). Interesting that regional peculiarities are visible in under or over estimation of self-assessment of innovativeness: Middle East countries (except Israel), Latin America countries (except Chile, Guatemala), African countries (except Egypt) and Eastern European countries like Russia, Belarus, Latvia and Poland all overestimate their innovativeness. While vast majority of Western European countries (except Greece), some of Eastern European countries, which are closer to Western Europe (Croatia, Slovakia, North Macedonia and Slovenia), China, India and Australia do not overestimate and sometimes even underestimate their innovativeness.

**Figure 29. Self assessment of innovativeness (% of adults) vs Product innovation in business (% of TEAs) by countries**



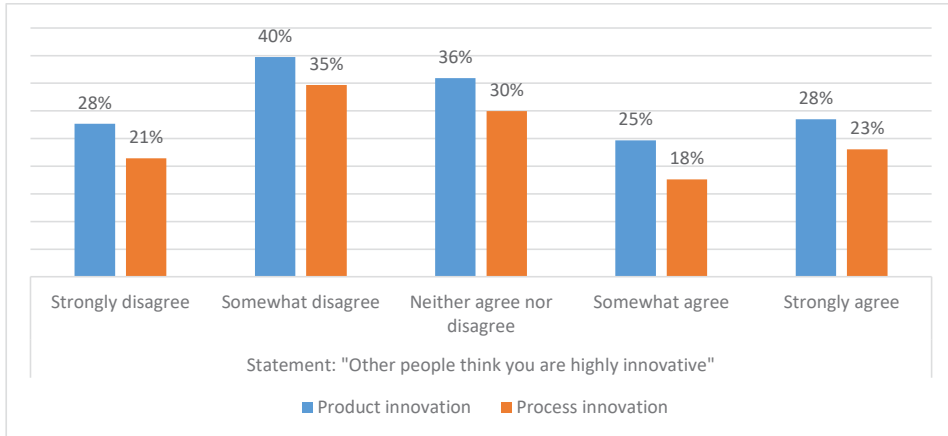


\* ranked by the difference between 2 estimates  
 Source: GEM Adult Population Survey, 2019

Observing data of respondents in Armenia, there is no positive correlation between self-assessment of innovation and being innovative in business. Moreover, those people who assessed their “innovativeness” less than average or average (2 or 3 on 5-point Likert scale) are in fact more innovative in business in Armenia compared to those who assessed their “innovativeness” as 4–5. This means that self-assessment of “innovativeness” does not have anything to do with innovation in business. **Considering ourselves as innovative, does not mean that we are really innovative, at least at business level or people who actually do innovations usually are not consider themselves as highly innovative.**



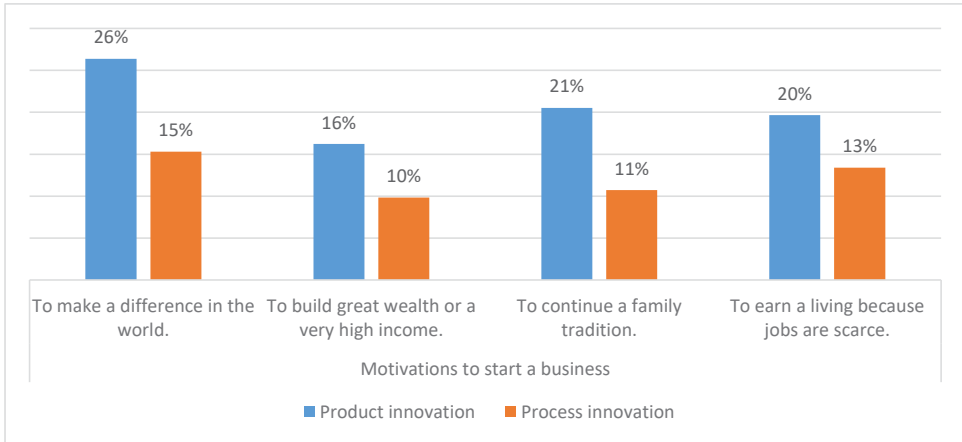
**Figure 30. Armenia. Self assessment of innovativeness vs Product and Process innovation in business (% of TEAs reporting innovation in business by level of agreement to statement)**



Source: GEM Armenia: Adult Population Survey, 2019

Those who start a business with motivation “To make a difference in the world” have more product and process innovations compared to people with other motivations. As mentioned, it is also explained by higher share of Business sector in this motivation, which itself bears innovation factor. It should be mentioned that those with motivation “To make a difference in the world” have much more product innovations, but do not much differ from others with process innovations. Nearly same level of process innovations comes to justify that the factor of investment availability is more important for process and technology innovations than the personal innovation ability of business owners.

**Figure 31. Armenia. Motivations for business vs Product and Process innovation in business (% of TEAs reporting innovation in business by motivation to start a business)**

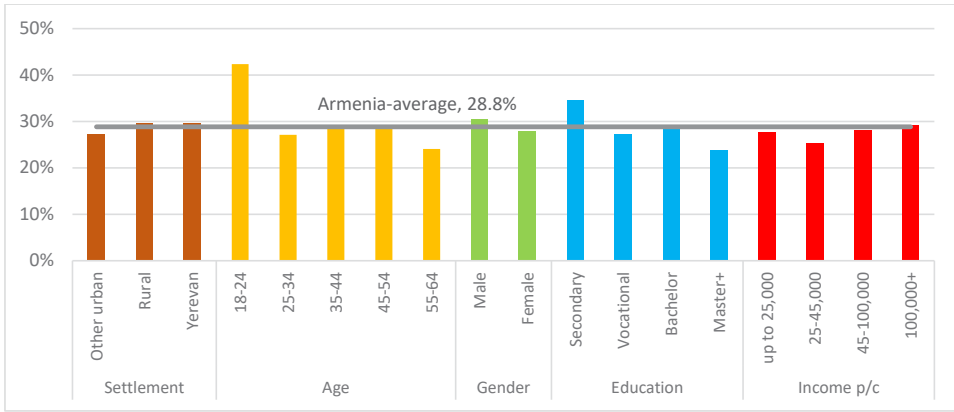


Source: GEM Armenia: Adult Population Survey, 2019

Observing the share of early-stage businessmen who reported a product innovation in their business by different groups of population, we may state that there are not very differences by type of settlements, income level or gender. Interesting that with increase of level of education decrease in product innovation in businesses is visible, which perhaps can be explained by two factors. Those who have higher education do not consider their “innovation” as innovation or it is explained by age groups. As it can be seen from the graph the highest innovation is registered for the youngest age group, which also explained by innovations in Business services sector, particularly ICT.



**Figure 32. Armenia. Product innovation in business (% of TEAs reporting innovation in business) by different groups of population**



Source: GEM Armenia: Adult Population Survey, 2019

## 4.4 Conclusion

- ▶ The necessity-driven motivation “to earn a living because jobs are scarce” has the largest share for Armenian entrepreneurs both in early-stage and established stage. Armenia is in top-10 countries with this motivation among all 50 GEM countries. In opposite, the purpose-driven motivation “to make a difference in the world” has one of the lowest shares in Armenia compared to other countries in the world.
- ▶ The share of “living” motivation is getting lower in Armenia for younger age groups and also with increase in education and income per capita.
- ▶ Females in Armenia (as also in most GEM countries) are more likely to agree with the statements “To make a difference in the world” and “To earn a living because jobs are scarce”, while male comparably more agree “to continue family traditions” and “to build great wealth” statements.
- ▶ High share of motivation “to earn a living because jobs are scarce” compared to other countries is explained by high share of entrepreneurship in Extractive sector (mainly agriculture), where people are much more motivated by “to earn a living because jobs are scarce”. The entrepreneurs in Business services sector are much more motivated “to make difference in the world”, than other sectors and also have the highest share of motivation “to build great wealth and income”.



- ▶ Majority of new businesses (67%) and established businesses (52%) provide 1-5 jobs, while 23% of TEAs and 31% of established businesses do not have hired employees. On average currently each TEA creates 1.6 jobs, while each EBO – 4.1 jobs.
- ▶ In both cases (TEA and EBO) expectations on number of jobs in their businesses in 5 year is higher than now. Relying on median value of expectations each TEA will create 2 more jobs, while each EBO – 1 more job in 5 year period. The largest growth is expected in Business services sector.
- ▶ Armenian early-stage entrepreneurs are more export orientated, than Established Businesses. The reasons can be explained by the expectations vs previous experience of these groups.
- ▶ Armenia is close to middle levels (21<sup>st</sup> out of 50 countries) with the share of TEAs expecting to have customers from outside of their country.
- ▶ Armenia is in the middle level between 50 GEM countries with the share of product innovation in TEAs (27<sup>th</sup> out of 50 countries), while is below average with the share of process/technology innovation in TEAs (36<sup>th</sup> out of 50 countries). Lower positions with process or technology innovation are related to lack of investment opportunities.
- ▶ Self-assessment of innovativeness of Armenians (8<sup>th</sup> highest out of 50 countries) does not transform into product or process innovation in business. Armenia is among 10 countries which overestimate their innovativeness.

GEM national team had imposed hypothesis regarding entrepreneurial activities for TEA and EBO in Armenia before the surveys. APS results come to confirm or reject these hypotheses.

### **1. Armenians are more innovative rather than other nations.**

*The hypothesis is mainly rejected.* While according to self-assessment of the respondents in Armenia, the country indeed is among leaders (8<sup>th</sup> out of 50 GEM countries), this “innovativeness” is not transformed into business innovation. The country is in the middle level with product innovation (27<sup>th</sup>) and is below average with process innovation (36<sup>th</sup>). Anyway, compared to EAEU countries (Russia and Belarus) Armenia has significantly higher level of product and process innovation in TEAs.



**2. Armenian TEA and established businesses are more motivated to make more income than by necessity-driven motivation.**

*The hypothesis is rejected.* The main motivation for Armenian TEAs and EBOs is “to earn a living because jobs are scarce” which is a necessity driven motivation. Armenia is in top-10 countries with this motivation (4<sup>th</sup> for EBOs and 8<sup>th</sup> for TEAs). The motivation “to build great wealth or a very high income” is the second motivation for Armenian businesses, but its share is largely below compared to necessity driven motivation. With “build great wealth” motivation Armenia is below average compared to other countries (30<sup>th</sup> for TEAs and 38<sup>th</sup> for EBOs).

**3. Armenian TEAs expect to add 1-5 jobs in their businesses in 5 years.**

*The hypothesis is confirmed.* Almost half of TEAs (45%) expect to add 1-5 jobs in 5 years. Relying on median value of expectations each TEA will create 2 more jobs. Only 11% of TEAs do not expect any jobs to add in 5 years.

**4. Armenian entrepreneurs are orientated to sell their product abroad rather than in local market.**

*The hypothesis is confirmed.* With share of TEAs anticipating to have more than 25% of their revenues from outside of their country (20.3%), Armenia is on 14<sup>th</sup> position out of 50 GEM countries. Meanwhile taking into account high share of TEAs in country, Armenia is the 3<sup>rd</sup> country with TEA internationalization indicator among GEM countries (after Canada and United Arab Emirates), where more than 4% of adults both starting or running a new business and anticipating 25% or more of revenue from outside their country. Comparing with other countries in GEM, Armenian TEAs have less customers in their local area (47<sup>th</sup> out of 50).







# Chapter V. Informal Investments

*“When money realizes that it is in good hands, it wants to stay and multiply in those hands.”*

— **Idowu Koyenikan**

## 5.1 Introduction

Starting a new business usually requires financial resources. The size of financial resources needed is different depending on a type of a business, country's legislative requirements. Therefore, access to finance is one of the important prerequisites for starting a new business. The size of financial resources needed to start a new business depends also on average income level of households in the country. Particularly, the average resident of a high-income economy may need less additional financial resources than the resident in low-income economy as proportion to their income level. This difference as well as other factors usually make access to finance in developing countries much more difficult. Government programs providing financial support to the new businesses can solve these issues, but it depends on the capacities, resources and priorities of a Government. Usual sources of finances used to start a new business in all countries include also own savings and funds provided informally by friends and relatives. Informal investments from friends and relatives usually have important role to finance a business especially in economies where there are issues with access to finance.

## 5.2 Level of Informal Investment

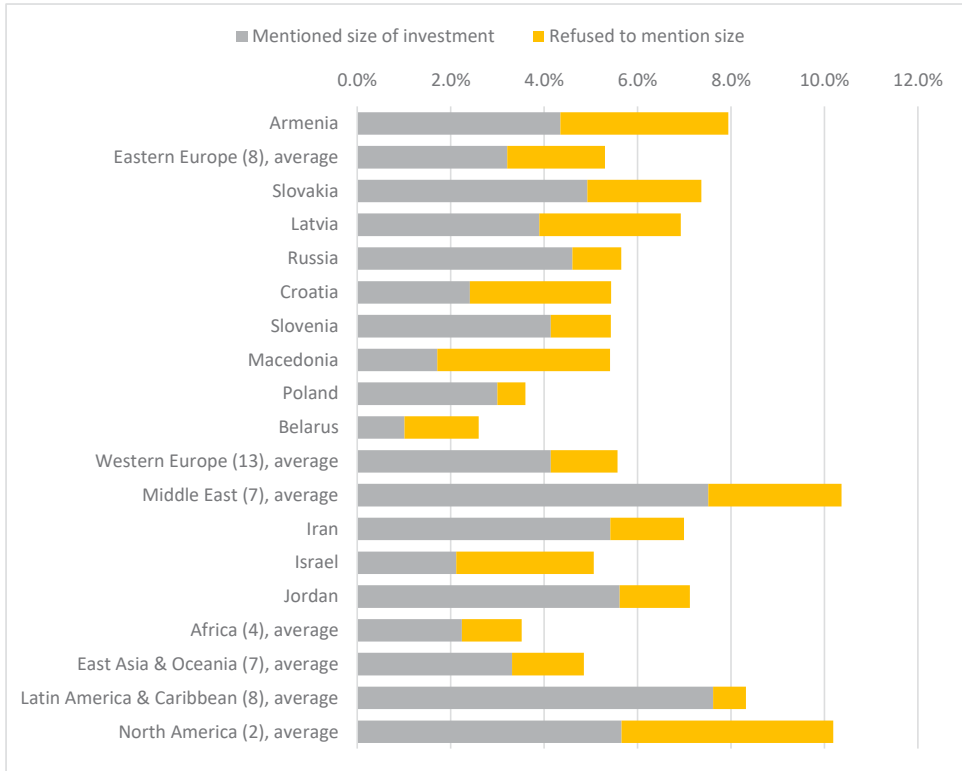
GEM APS questionnaire has three questions related to informal investment in new businesses. The questionnaire asks individuals if they have invested in a new business started by someone else, and if so how much they invested, and what the relationship to that person is.

Around 7.9% of population within 18–64 age group in Armenia mentioned that they personally provided funds for a new business started by someone else within past 3 years. Only 4.3% of population (or a bit more than half of those who mentioned about making informal investments) stated how much they provided. Many people do not want to reveal the amount they invested informally in Armenia.

Armenia is on the 14<sup>th</sup> position among 50 countries in 2019 GEM APS and is the leader among 9 Eastern European countries with the share of population that provided funds for a new business started by someone else. This means that the role of informal investments for starting a new business in Armenia is higher compared to most of the countries. Interesting that Armenia is somewhere between Europe and Middle East by this indicator.



**Figure 33. Informal Investors (% of adults) by countries/regions**

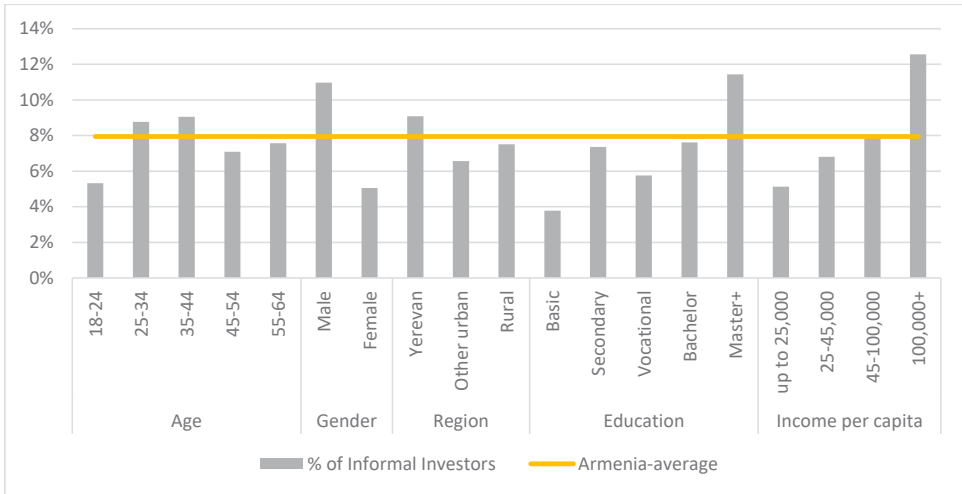


Source: GEM Adult Population Survey 2019

Two out of three informal investors in Armenia are males. Overall collective image on an informal investor in Armenia is an average age (25–44) male, who has higher education and is representing a household from the highest quartile by per capita income (over 100,000AMD monthly).



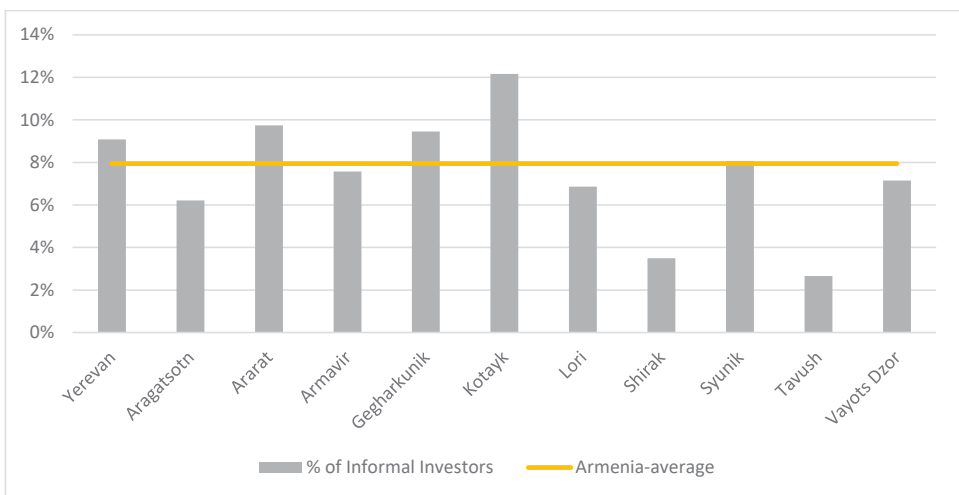
**Figure 34. Armenia: Share of Informal Investors (% of adults) by different groups of population**



Source: GEM Armenia: Adult Population Survey 2019

The share of informal investors is higher among rural population compared to urban population (without Yerevan). Comparing level of informal investments by marzes, Kotayk registered the highest level of informal investors, while Tavush has the lowest level.

**Figure 35. Armenia: Share of Informal Investors (% of adults) by marzes**



Source: GEM Armenia: Adult Population Survey 2019

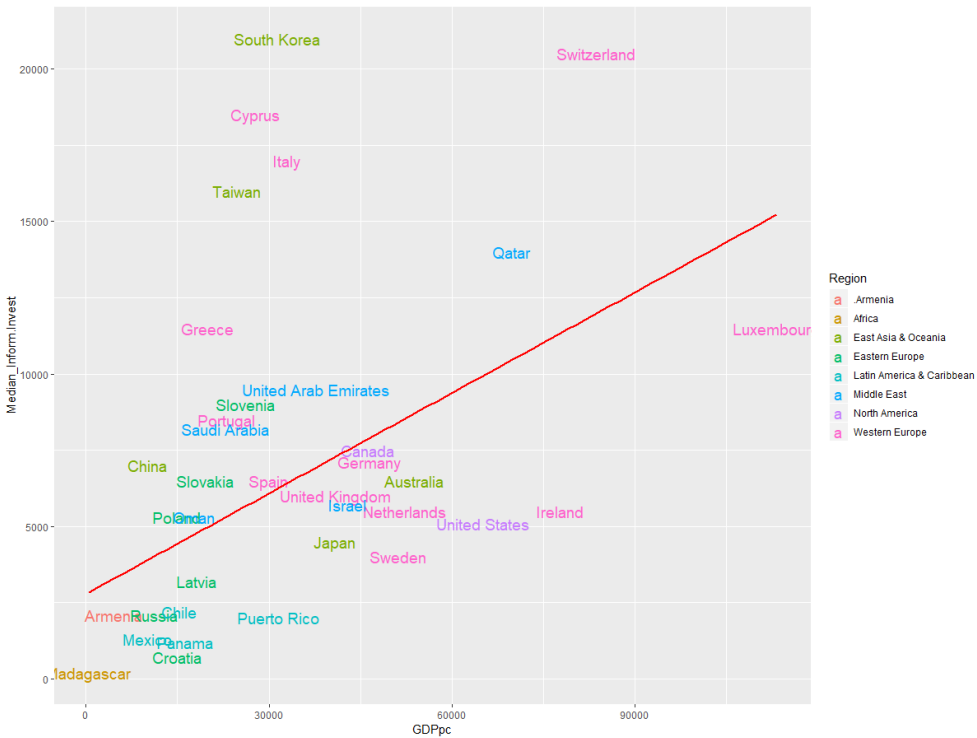


The level of informal investment by marzes has very weak positive correlation with income per capita indicator. It does not have any correlation with TEA level, but has moderate positive correlation with EBO level. ***This means that the level of informal investment is growing with increase of income, but more with increase of level of established business owners in the country.***

The average size of informal investment in someone else’s new business is around 2.1 mln AMD (~4,400 USD) in Armenia, while median size of informal investment is twice lower – 1.0 mln AMD (~2,100 USD).

There is a moderate positive correlation between median size of informal investments and GDP per capita by countries in 2019 GEM.

**Figure 36. Median size of informal investments and GDP per capita by countries**



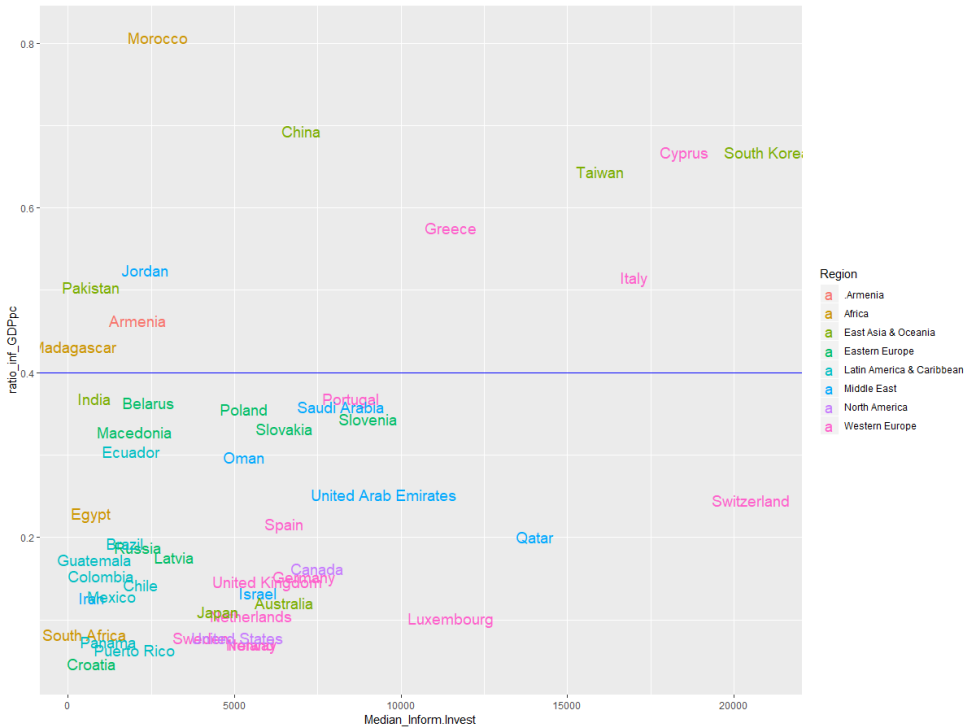
Source: calculated based on GEM Adult Population Survey 2019 and IMF data

Even if median size of informal investment in Armenia is comparably small in absolute compared to other countries (34<sup>th</sup> out of 50), the ratio of median size of informal investments and GDP per capita is quite large (10<sup>th</sup> out of 50), which states that informal investments are more important for Armenian



entrepreneurship than in average for GEM country. There are only 11 countries for which ratio of median informal investment to GDP per capita is over 0.4.

**Figure 37. Ratio of Median size of informal investments and GDP per capita by countries**

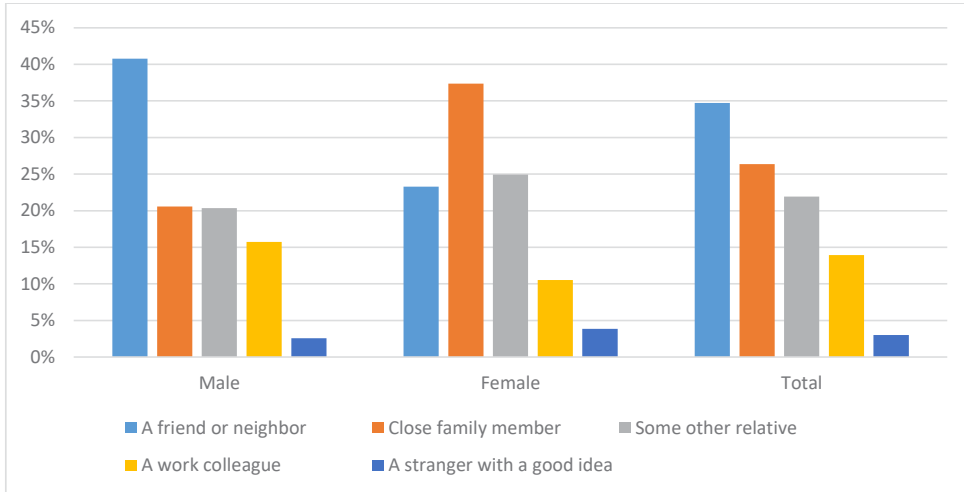


Source: calculated based on GEM Adult Population Survey 2019 and IMF data

Finally, GEM APS asks the informal investors what their relationship was with the person that received your most recent personal investment. A friend or neighbor (35%) and close family member, such as a spouse, brother, child, parent, or grandchild (26%) are two most popular answers in Armenia. These two groups are also the most popular in average for 2019 GEM APS all countries, where in 46 out of 50 countries, these two answers comprise at least 60%.

Female informal investors in Armenia are more intended to provide funds to close family members, while male investors – to a friend.



**Figure 38. Informal Investor relationship with person received personal investment (% in investors of each group)**

Source: GEM Armenia: Adult Population Survey 2019

### 5.3 Conclusions

- ▶ Around 7.9% of population within 18–64 age group in Armenia mentioned that they personally provided funds for a new business started by someone else within past 3 years.
- ▶ The level of informal investment in Armenia is growing with increase of income, but more with increase of level of established business owners in the country.
- ▶ The median size of informal investment is 1.0 mln AMD (~2,100 USD). In absolute values this is among lower size group within 2019 GEM APS 50 countries, but relatively to GDP per capita, Armenia's indicators is in Top-10 among 50 countries.
- ▶ The role of informal investments for starting a new business in Armenia is high compared to most of the countries, which is an evidence of harder access to finance for new businesses in Armenia compared to other countries in average. Of course, there could be also an influence of cultural and

social norms on rates of providing funds to others, but there is no much difference between Armenia and other countries by the receivers of these funds provided.

- ▶ Receivers of informal investment in Armenia are mainly the same as average in all 2019 GEM countries: friends (35% of cases and mainly due to male investors) and close family members (26% of cases and mainly due to female investors).

GEM national team had imposed hypothesis regarding entrepreneurial activities for TEA and EBO in Armenia before the surveys. APS results come to confirm or reject these hypotheses.

### **1. The share of non-formal financial supporters in the entrepreneurship is big in Armenia.**

*The hypothesis is confirmed.* Armenia is on the 14th position among 50 countries and is the leader among 9 Eastern European countries with the share of population that provided funds for a new business started by someone else. This means that the role of informal investments for starting a new business in Armenia is high compared to most of the countries.





# Chapter VI.

## Exiting a Business

*“You have to see failure as the beginning and the middle, but never entertain it as an end.”*

**– Jessica Herrin, founder and CEO of Stella & Dot**

## 6.1 Introduction

Exiting a business and issues related to it are also important as for the entrepreneurial environment in the economy. Reasons for exiting a business may be negative (such as fail, losses), but also positive (selling a business, retirement, starting another larger business) which also shows the state of entrepreneurial environment in a country. Moreover, procedures to exit a business influence also the decisions to start and run the business: if it is hard to end a business, the population will think twice to start a business and vice versa. Exiting a business not always mean the discontinuation of a business. There are cases when the owner exits or sell the business but it continues to act and create value added for the country.

GEM APS tries to estimate the rates of business exits in the countries, understand the reasons and if the business continued after the owner's exit.

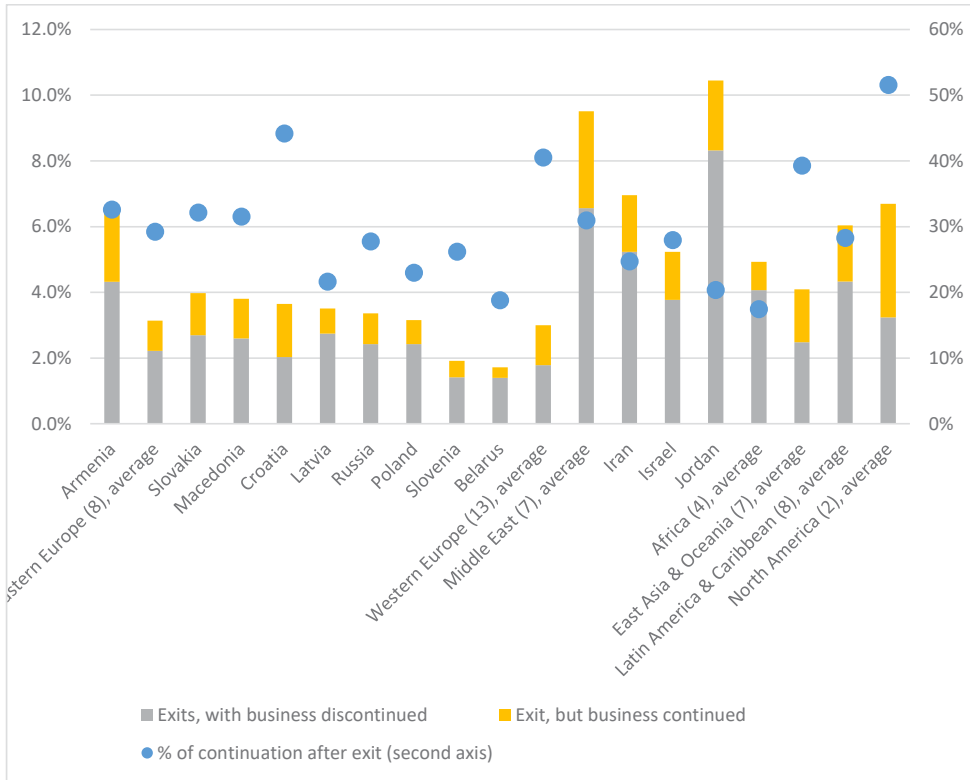
## 6.2 Exiting a Business in 2019

Around 6.4% of population within 18–64 age group in Armenia mentioned that they have exited their business in the past 12 months (sold, shut down, discontinued or quit a business they owned and managed). This is the 13<sup>th</sup> highest indicator within 50 countries in 2019 GEM APS and is the highest among 9 Eastern European countries.

**The rates of business exits are correlated with the rates of starting a business in countries.** Indeed, if it is hard to end a business, the population will think twice to start a business and vice versa. This correlation is very strong (0.87) for the group of countries from Europe and America (32 countries including Armenia), but no correlation is evidenced for Middle East, East Asia and African countries. Perhaps in these countries there are other, mainly non-economic reasons that influence this relation.



**Figure 39. Business exit rates (% of adults) in 2019 by countries/regions**



Source: GEM Adult Population Survey 2019

**The rate of business continuation after exit in 2019 for Armenia is quite positive.** One third of businesses in Armenia continued its activities after the exit of owner-manager in 2019, which is among average indicators of all 50 countries in 2019 GEM APS (22<sup>nd</sup> out of 50 indicators), but it is the second highest in Eastern Europe region (after Croatia). The highest average rates of continuation of a business after exit are noticed for developed countries (the highest is for Switzerland). Indeed, there is a moderate correlation between the rate of continuation of a business after exit and GDP per capita (0.49).

Observing business exit rates by different groups of population in Armenia, the following peculiarities are noticed:

- The rates of business exits are decreasing with age increase. Moreover, share of businesses, which continued their activity after the owner’s exit, is higher for young age owners (47.2% for age group 18–24 while it is only 20.7% for 55–64 age group). This may mean that the business initiatives of young population

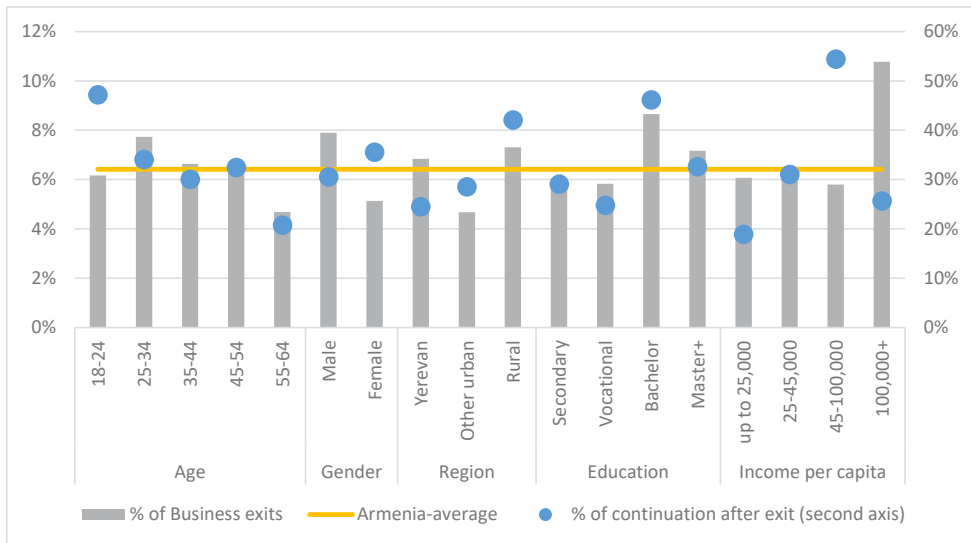


seem to be more successful compared to older age groups, but even in this case young age group population has also higher exit rates, perhaps for other business purposes.

- Business exit rate is higher for male compared to female (6.8 vs 4.7%). While male population is more active in starting a business or owning an established business, it is normal that they also have higher exit rates. It is interesting that business continuation rate after exit is a bit higher for female owner businesses (35.6% vs 30.5%).
- Business exit rates are higher for those with higher education. The rates of continuation of businesses after exit for those with higher education is higher compared to secondary and vocational education owners (46.2% for Bachelor degree and 32.6% for Master degree against 29.1% for Secondary education and 24.8% for Vocational education), which states that businesses started and managed by population with higher education are also more successful.
- Business continuation rates after exit are higher in rural areas (42.1% vs 24.5% in Yerevan), which may be explained by agricultural nature of most of the businesses in this area.

The reasons of exists will be discussed in next sub-chapter, which may provide more insights to these trends.

**Figure 40. Armenia: Business exit rates (% of adults) by different groups of population**



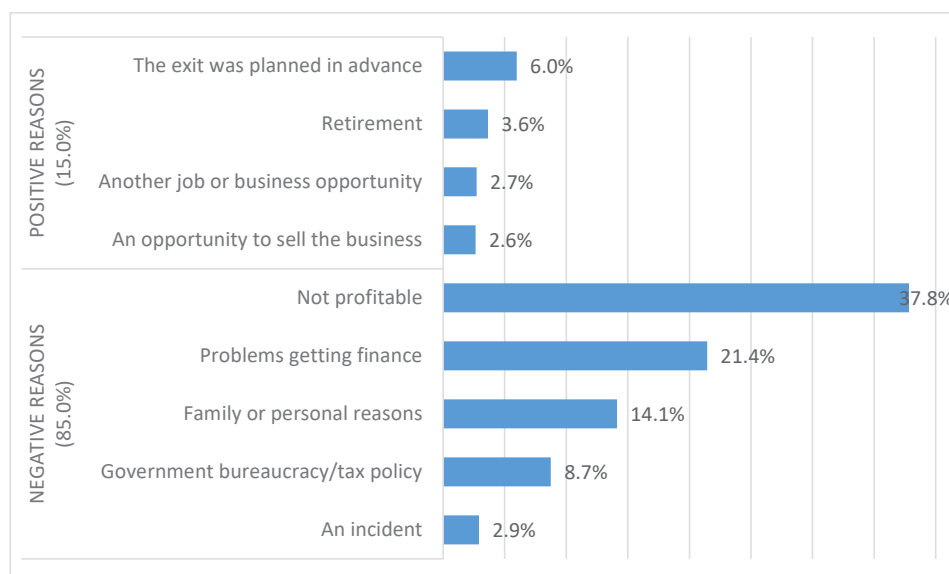
Source: GEM Armenia: Adult Population Survey 2019



### 6.3 Reasons for Exiting a Business

The reasons for exiting a business are grouped into two groups: positive reasons and negative ones<sup>10</sup>. In 85% cases, business exits in 2019 in Armenia had negative reasons, mainly due to three reasons: not profitable (38%), financial problems (21%) and family, and personal reasons (14%).

**Figure 41. Armenia: Business exit reasons in 2019**  
(% in total business exits)



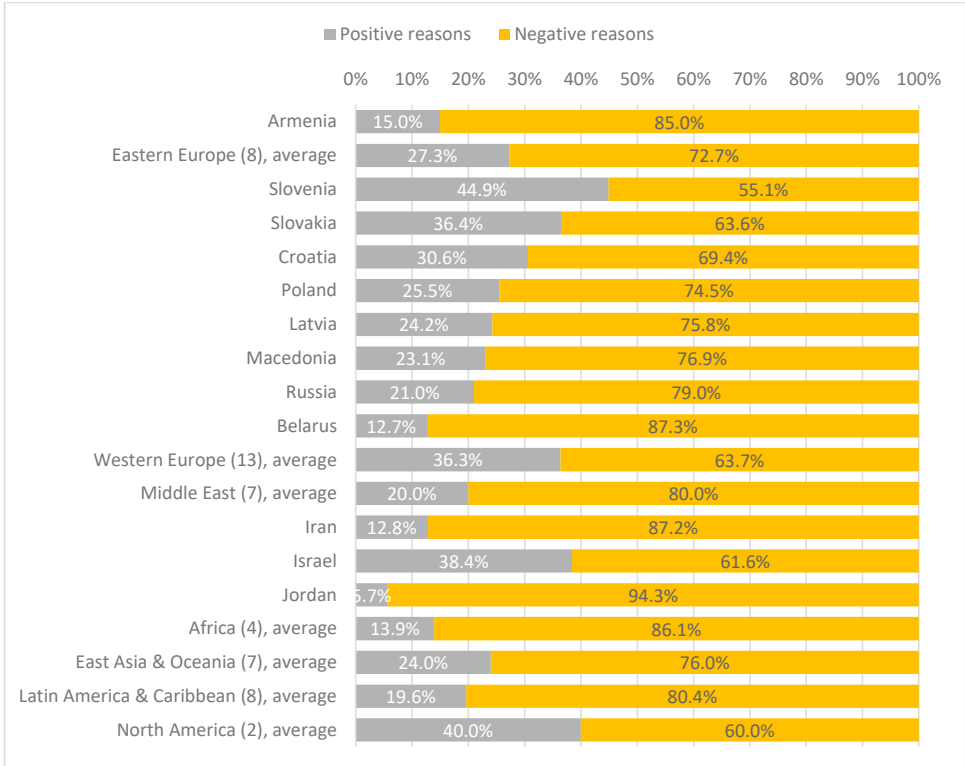
Source: GEM Armenia: Adult Population Survey 2019

The share of positive reasons to exit a business in Armenia (15%) is among the lowest indicators for 50 GEM APS countries (41th out of 50). Only Belarus has lower indicators within Eastern European region. Higher share of negative reasons in business exits speaks about issues in entrepreneurship environment in the country. Particularly “Not profitable” reason of exiting a business can show issues in national conditions that influence the development of entrepreneurship in a specific country, like competitiveness, but also may be explained by other issues, such as low skills and entrepreneurial education in the country. Particularly, it is interesting, that share of positive reasons in business exits is positively correlated

<sup>10</sup> Of course, this categorization may be ambiguous: for example, retirement may be a negative reason if forced by circumstances, or family reasons may be positive if it is to spend more time with them.

with GDP per capita (0.67 correlation coefficient), correspondingly, negative reasons are negatively correlated.

**Figure 42. Business exit by reasons by countries/regions**



Source: GEM Adult Population Survey 2019

## 6.4 Conclusions

- ▶ Around 6.4% of population within 18–64 age group in Armenia mentioned that they have exited their business in the past 12 months
- ▶ The rates of business exits are correlated with the rates of starting a business in countries. This correlation is very strong (0.87) especially for countries from Europe and America. This means that the decision to start a business depends also on how easy is the process to end a business.



- ▶ One third of businesses in Armenia continued its activities after the exit of owner-manager in 2019 (22<sup>nd</sup> out of 50 indicators), but it is the second highest in Eastern Europe region (after Croatia). Higher rates of business continuation after exits is more common for developed countries.
- ▶ Business continuation rates after exits in Armenia are higher for younger age groups owners, female, population with higher education and rural population, which may mean, that these groups are in average more successful as business owners compared to other groups of population.
- ▶ In 85% cases, business exits in 2019 in Armenia had negative reasons, which is among the worst indicators in 2019 GEM (41<sup>st</sup> out of 50).
- ▶ Share of positive reasons in business exits is positively correlated with GDP per capita (0.67 correlation coefficient).
- ▶ Comparably positive indicator for share of business continuation after exits with higher share of negative reasons for business exits in Armenia in 2019 speak about transition period of changes in the economic/political developments in the country, which affects also entrepreneurship.

GEM national team had imposed hypothesis regarding entrepreneurial activities for TEA and EBO in Armenia before the surveys. APS results come to confirm or reject these hypotheses.

### **1. The share Almost all business exits mean that the end of a business is near**

*The hypothesis is mainly rejected.* Even if the reasons for exit a business are mainly negative, Armenia registered comparably positive indicators of share of business continuation after exits: 1/3<sup>rd</sup> of businesses in Armenia continued its activities after the exit of owner-manager in 2019 (22<sup>nd</sup> out of 50). It is the second highest indicator among Eastern European countries (after Croatia). Business continuation rates after exits in Armenia are higher for younger age groups owners, female, population with higher education and rural population, which may mean, that these groups are in average more successful as business owners compared to other groups of population.







# Chapter VII. The Entrepreneurship Context

*“All humans are entrepreneurs not because they should start companies but because the will to create is encoded in human DNA.”*

— **Reid Hoffman,**  
**co-founder LinkedIn**

## 7.1 Introduction

Previous chapters focus on the key entrepreneurship indicators through information provided by randomly selected individuals representing population (APS). However, there are national conditions that influence the development of entrepreneurship in the country – positively or negatively. Any decision to start and run a new business is taken in a specific context. National context is very important as it provides the environment or conditions where individual entrepreneurial skills may be used. It is possible that within one economy, good national context is available with low quality of entrepreneurial activity on individual level and vice versa, but usually these two measures should have positive relationship over the time.

## 7.2 The GEM Entrepreneurship Framework Conditions

GEM assesses the environment for enterprise by defining a number of specific Entrepreneurship Framework Conditions, as set out in Table 20. Individually and collectively, these conditions influence how easy, or how difficult, it is to start a new business and then develop that new venture into a sustainable established business.

**Table 20. GEM’s entrepreneurship context: national Entrepreneurship Framework Conditions**

1	<b>FINANCE: ACCESS TO ENTREPRENEURIAL FINANCE.</b>	Are there sufficient funds available to new startups, from informal investment and bank loans to government grants and venture capital?
2	<b>GOVERNMENT POLICIES:</b> a) GOVERNMENT POLICY: SUPPORT AND RELEVANCE.	Do government policies promote entrepreneurship and support those starting a new business venture?
	b) GOVERNMENT POLICY: TAXES AND BUREAUCRACY.	Are business taxes and fees affordable for the new enterprise? Are rules and regulations easy to manage, or an undue burden on the new business?
3	<b>GOVERNMENT PROGRAMMES:</b> GOVERNMENT ENTREPRENEURSHIP PROGRAMMES.	Are quality support programs available to the new entrepreneur at local, regional and national levels?



4	<b>EDUCATION &amp; TRAINING:</b> a) ENTREPRENEURSHIP EDUCATION AT SCHOOL.	Are schools introducing ideas of entrepreneurship, and instilling students with entrepreneurial values such as enquiry, opportunity recognition and creativity?
	b) ENTREPRENEURSHIP EDUCATION POST-SCHOOL.	Do colleges, universities and business schools offer effective courses in entrepreneurial subjects, alongside practical training in how to start a business?
5	<b>R&amp;D TRANSFER: RESEARCH AND DEVELOPMENT TRANSFERS.</b>	To what extent can research findings, including from universities and research centers, be translated into commercial ventures?
6	<b>COMMERCIAL INFRASTRUCTURE:</b> COMMERCIAL AND PROFESSIONAL INFRASTRUCTURE.	Does access to affordable professional services such as lawyers and accountants support the new venture, within a framework of property rights?
	<b>MARKET OPENNESS:</b> a) EASE OF ENTRY: MARKET DYNAMICS.	Are there free, open and growing markets where no large businesses control entry or prices?
7	b) EASE OF ENTRY: MARKET BURDENS AND REGULATIONS.	Do regulations facilitate, rather than restrict, entry?
	<b>8 PHYSICAL INFRASTRUCTURE.</b>	To what extent are physical infrastructures, such as roads, Internet access and speed, the cost and availability of physical spaces and such like, adequate and accessible to entrepreneurs?
9	<b>9 SOCIAL AND CULTURAL NORMS.</b>	Does national culture stifle or encourage and celebrate entrepreneurship, including through the provision of role models and mentors, as well as social support for risk-taking.

In order to assess national context and conditions, GEM uses answers of at least 36 selected national experts for each country. Armenia’s results are based on opinion of 40 experts. Majority of participant countries used less experts (38 countries out of 54 had 36–39 experts). The experts were selected according to their knowledge and each of 9 areas within defined national entrepreneurship framework conditions are represented by at least 4 experts.

For every economy in GEM, each national expert scored the sufficiency of each framework condition<sup>11</sup>. Summarized variables are then averaged across all the experts.

<sup>11</sup> Each item in the form of a statement is rated by each national expert on a scale from 0 (completely false) to 10 (completely true). GEM then harmonizes and weights the data, calculating a rating for every framework condition by applying a principal component analysis to each section of the questionnaire.

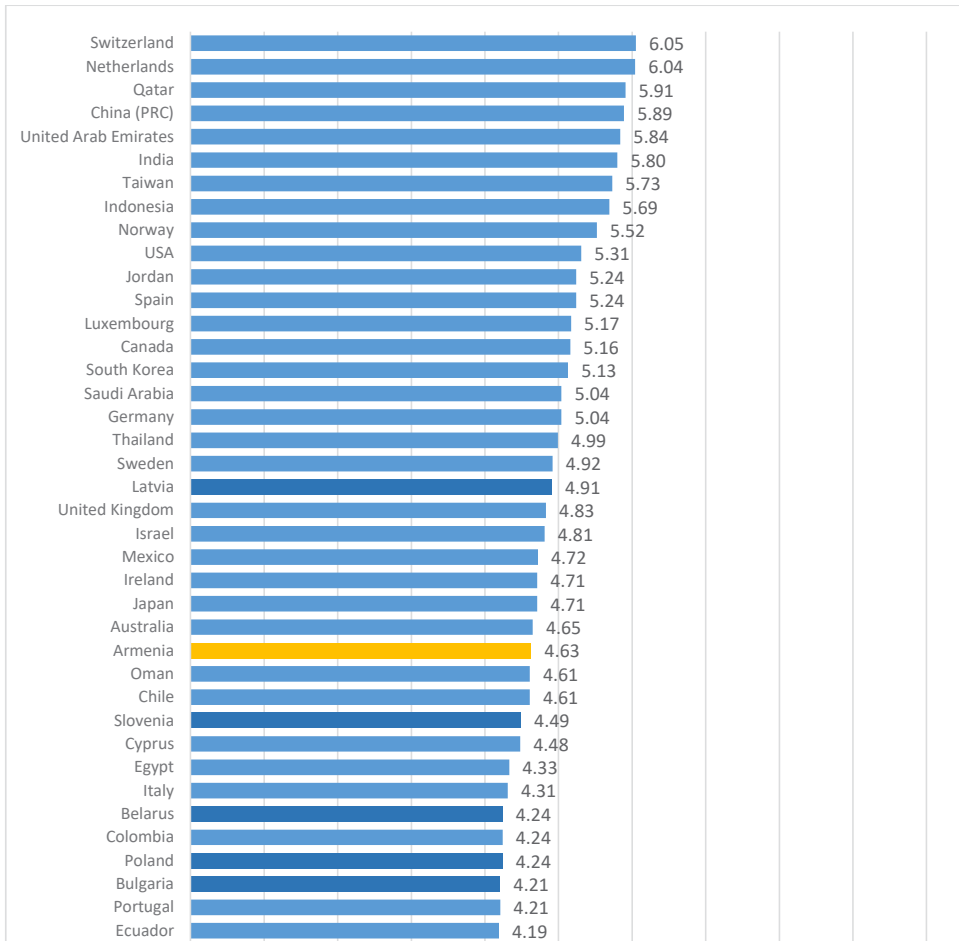


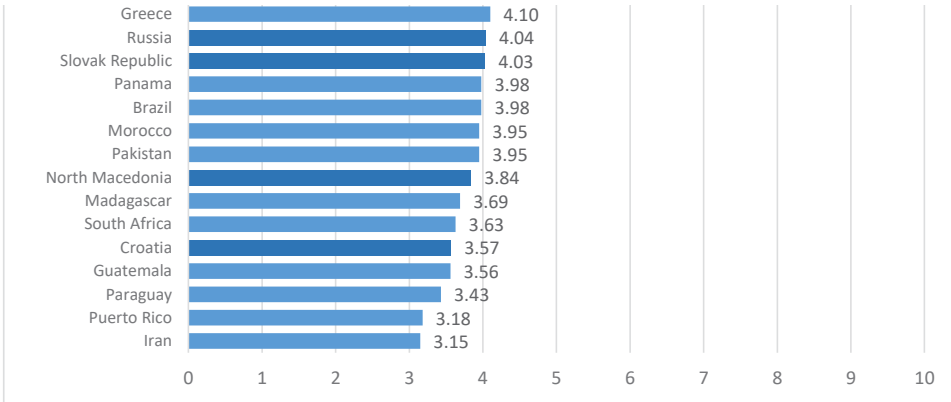
### 7.3 The National Entrepreneurship Context Index (NECI)

Armenia is ranked 27<sup>th</sup> among 54 countries participating in National Expert Survey (NES) in 2019GEM according to overall National Entrepreneurship Context Index (NECI). NECI is a composite index representing in one figure the weighted average state of the set of national Entrepreneurship Framework Conditions within GEM.

Armenia with its score of Entrepreneurship Context is behind Latvia only, if 10 Eastern European countries available in 2019GEM are compared.

**Figure 43. National Entrepreneurship Context Index (NECI) for 54 economies**





\* Dark color Eastern European countries

Source: GEM National Expert Survey 2019

The higher the NECI level, the higher entrepreneurial activity is expected in the country as higher NECI means better conditions for the entrepreneurship. Anyway, data on 54 countries show different picture from country to country. It is interesting that NECI level and TEA level (presented in Chapter 3) by countries do not show high correlation. Anyway, 4 out of 7 top countries by NECI are among 12 countries where TEA is lower than EBO. This may mean that good conditions make it much easier to sustain a new venture into an established business, while in difficult conditions it may be easier to close a business.

In Armenia TEA level is among the highest within the countries in 2019 GEM, while EBO level is among average indicators. The difference between TEA and EBO indicators is 2.7 times (11<sup>th</sup> largest within 50 countries in 2019 GEM), which means that starting a business in Armenia is much easier than sustaining an established business. *In other words, quantity of new entrepreneurs does not grow into the quality.* **The further development of entrepreneurship conditions in Armenia should focus more on providing better conditions to sustain a venture into an established business.**

## 7.4 Expert ratings of Entrepreneurial Framework Conditions

Overall NECI level is based on experts' assessment of GEM defined framework conditions of entrepreneurship in a particular country. As mentioned GEM uses 9 framework conditions 3 of which are divided into 2 parts making the conditions



to be assessed as 12. The assessment of each condition is also based on a number of questions/statements (5–8 for each condition).

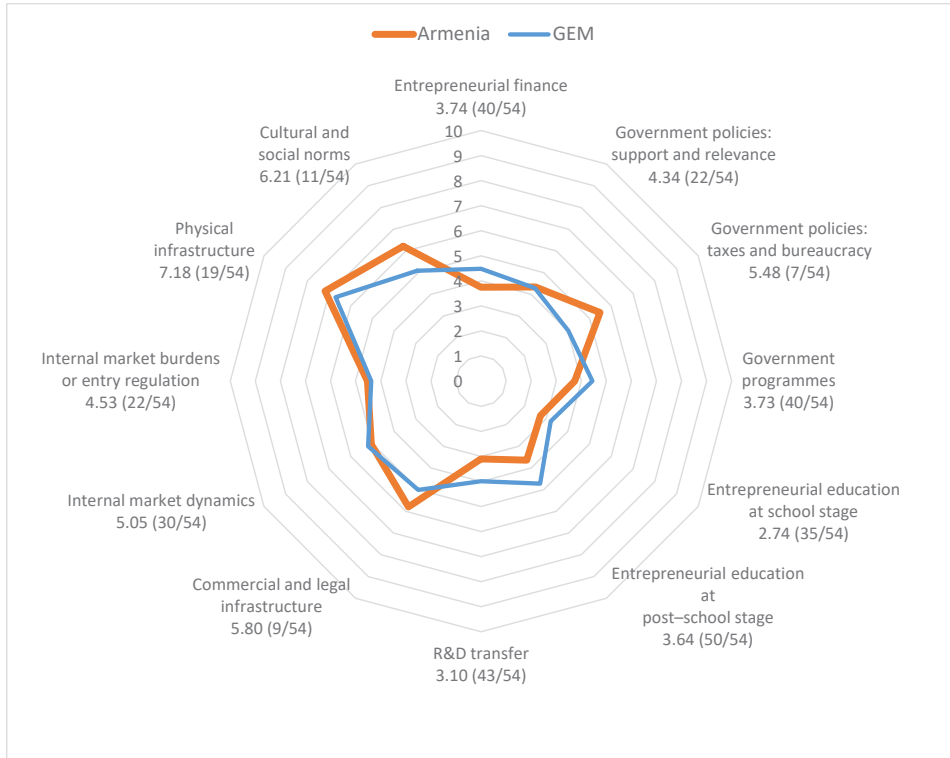
**Armenia has higher score compared to GEM average for half of indicators (6 out of 12). Particularly, the largest difference (over 1.0 point) is registered for Government policy: taxes, bureaucracy (7<sup>th</sup> position out of 54) and Cultural, and social norms (11<sup>th</sup> out of 54).**

**Especially high assessment of Government policy conditions on taxes and bureaucracy seems quite surprising, as this condition was perceived as one of the main constraints of entrepreneurship in Armenia over the years.** The change of perception noticed in 2019 is definitely a result of political and economic changes of new government in Armenia. After a “velvet revolution”, the government declared that measures against corruption have to be taken and tried to make governmental institutions more transparent. Moreover, several other reforms related to entrepreneurship were declared during 2019. One of the key changes was the adoption of a tax reform package, which is enacted since January 2020. Among major changes related to the entrepreneurship are (i) increase of the allowed turnover tax threshold to 115 million Armenian drams (AMD), (ii) micro-businesses with an annual turnover of up to 24 million AMD are exempt from taxation, (iii) tax rates will transition from their current tiered system to a flat income tax rate of 23%. The assessment of this component by experts in 2019 perhaps is a result of these changes. Particularly, the Armenian experts’ assessment is the 2<sup>nd</sup> highest (after China) for the statement “New firms can get most of the required permits and licenses in about a week” which is one of 4 subcomponents for Government policy on taxes and bureaucracy. The assessment of other two out of three subcomponents of this component is within top10 answers also. Overall the expert’s average assessment for Government policy: taxes and bureaucracy is 5.42 out of 10, while GEM 54 countries’ average is 4.02.

Cultural and social norms toward entrepreneurship are assessed as quite supportive for entrepreneurial activity in Armenia. According to the assessment of experts Armenia is among top10 countries with these statements: “national culture encourages entrepreneurial risk-taking” and “national culture encourages creativity and innovation”.



**Figure 44. Armenia vs GEM NES 2019: average by assessment of Entrepreneurial framework conditions**



Source: GEM National Expert Survey 2019

Regarding the entrepreneurial conditions that are assessed lower than in average for all 2019 GEM countries, the main issues are noticed in (i) Entrepreneurial education – both at school and post-school stage, (ii) R&D transfer and as well as (iii) Government entrepreneurial programs and (iv) Entrepreneurial finance.

**Entrepreneurial education is one of the main components that need to be strengthened in Armenia.** The assessment of expert in Armenia and other 2019 GEM countries shows that entrepreneurial education at primary and secondary stage and especially at post-school stage lags behind most of the countries. Particularly, the assessment of the statement “The vocational, professional and continuing education systems provide good and adequate preparation for starting up and growing new firms” is the second lowest among all 54 countries in GEM NES. The assessment of other statements on education in Armenia reveals issues with adequate instruction in market economic principles (competitive advantages, productivity, use of technology), as well as good and adequate



preparation for starting up and especially growing new firms.

**R&D transfer is another issue to be solved to support entrepreneurship in Armenia.** Education system in addition to providing entrepreneurial education has big role in R&D transfer also. The efficiency of transfer of new technology, science and other knowledge from universities and public research centers to new and growing firms in Armenia has one of the lowest assessment level (52th out of 54 countries). According to the experts' assessment, Armenia lags behind of most of the countries, as there are no adequate government subsidies for new firms to acquire new technologies, there is not enough support for creation of world-class new technology-based ventures, there is not enough support for engineers and scientists to have their ideas commercialized through new and growing firms.

**Other issues in developing entrepreneurship in Armenia is lack of government entrepreneurial programs and provision of financing to entrepreneurship.** The lack or efficiency of government programs to support entrepreneurship is lower than average level of 2019 GEM NES countries. Financing of entrepreneurship in Armenia is also assessed lower than average of all 2019 GEM NES countries, even if Armenia's assessment is the second highest for the statement "It is easy for new and growing firm to get good banking services". Anyway, availability of government subsidies and other forms of funding for new and growing firms is at lower than average level.

Detailed assessment of each component and its subcomponents are presented in the Annex 7.

## 7.5 Constraints, Supports and Recommendations

The previous sub-chapter presented the results of expert assessment of entrepreneurial framework conditions in Armenia and highlights the weaknesses and strengths of Armenia's entrepreneurship conditions based on comparison with other countries in 2019 GEM NES. These are not necessarily the results that experts propose to support and recommend to strengthen entrepreneurial activity in the country. To understand that, each national expert was asked to outline up to three factors that most constrain entrepreneurial activity in that economy, up to three factors that most support this activity, and to make up to three recommendations to enhance entrepreneurial activity. The open-ended answers were summarized using list of 20 topics for further analysis to be used for all countries in 2019 GEM.

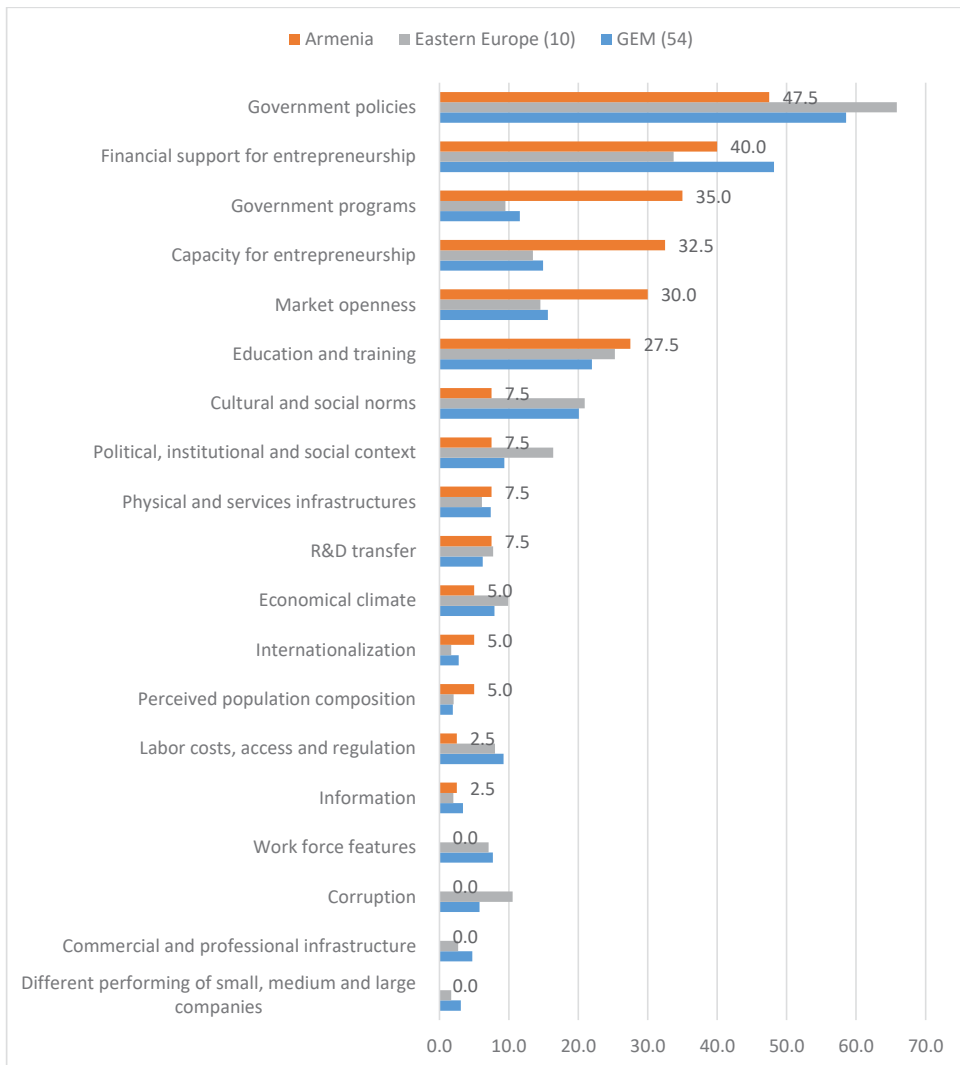
**According to the experts, there are 6 main areas that are constraining entrepreneurial activity in Armenia.** These are Governmental policies (47.5% of





times mentioned), Financial support for entrepreneurship (40.0%), Government programs (35.0%), Capacity of entrepreneurship, Market openness and Education, trainings.

**Figure 45. Topics/Areas that constrain entrepreneurial activity (% of times that experts cited an option)**



Source: GEM National Expert Survey 2019



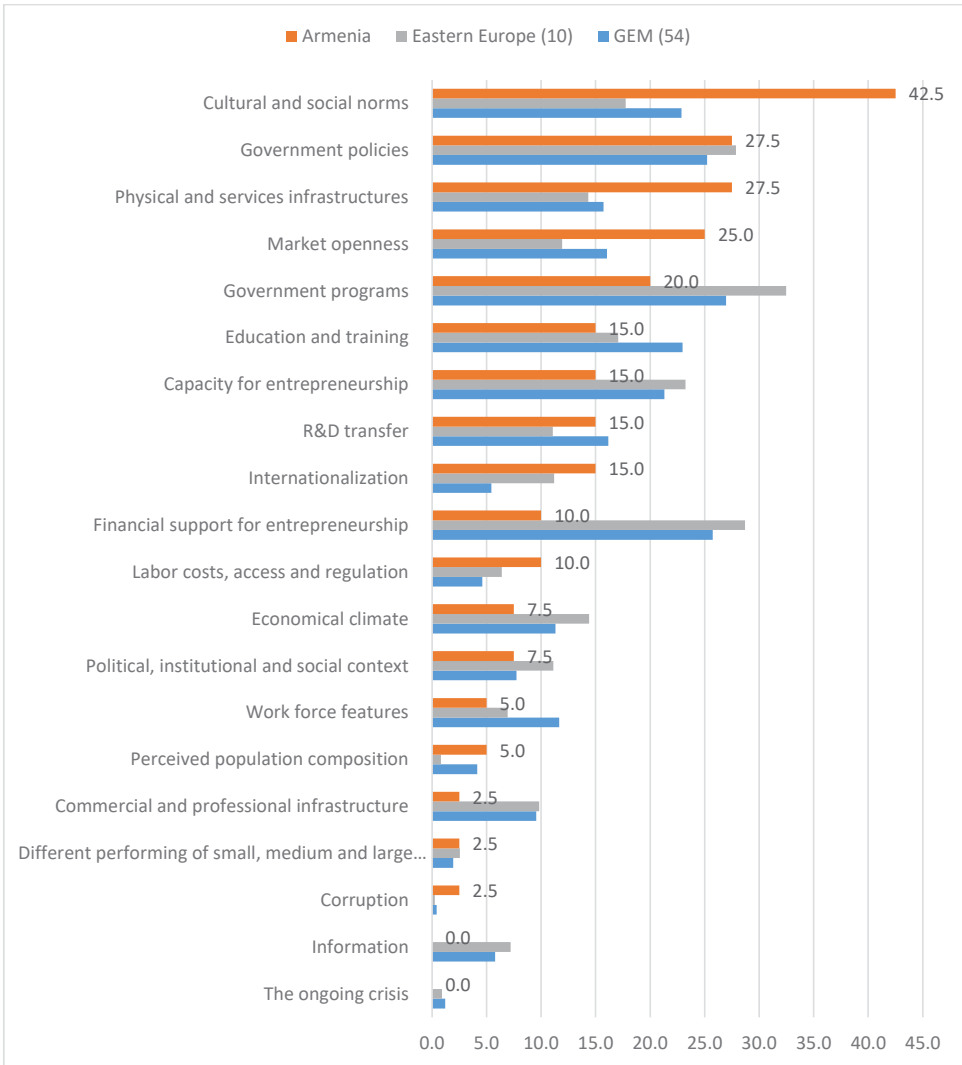
Main issues mentioned in the group of Government policies refer to legislative framework as well as tax and bureaucracy. It is interesting that even if experts mention these issues the most among constraints to entrepreneurial activity in Armenia, their overall assessment of Government policies in Armenia toward entrepreneurship appears to be higher compared to other countries in 2019 GEM. This means that these issues are even more important in other countries. Particularly the share of constraints related to Government policies mentioned by experts in all 54 GEM countries as well as in 10 Eastern European countries in GEM is higher than in Armenia.

Four other areas mentioned as main constraints to entrepreneurial activity in Armenia are those where situation is worse than for GEM countries in average according to expert assessment presented in the previous sub-chapter. These are financing (mainly access to affordable and long-term finance for SMEs was mentioned), Government programs (support), Education and training, Capacity for entrepreneurship (low or lack of entrepreneurship knowledge is mentioned which relates this area to education issues). Larger share of these areas mentioned as constraints compared to other GEM countries confirms that these are main areas where country should focus to support entrepreneurship.

**According to the experts Cultural and social norms is the main area fostering entrepreneurial activity in Armenia.** Cultural and social norms such as national mentality and traditions toward entrepreneurs, creative and innovative activity along with new initiatives of government to support small and medium entrepreneurship (as result of recent political changes) and availability of physical and service infrastructures in the country are mentioned the most.



**Figure 46. Topics/Areas that are fostering entrepreneurial activity (% of times that experts cited an option)**



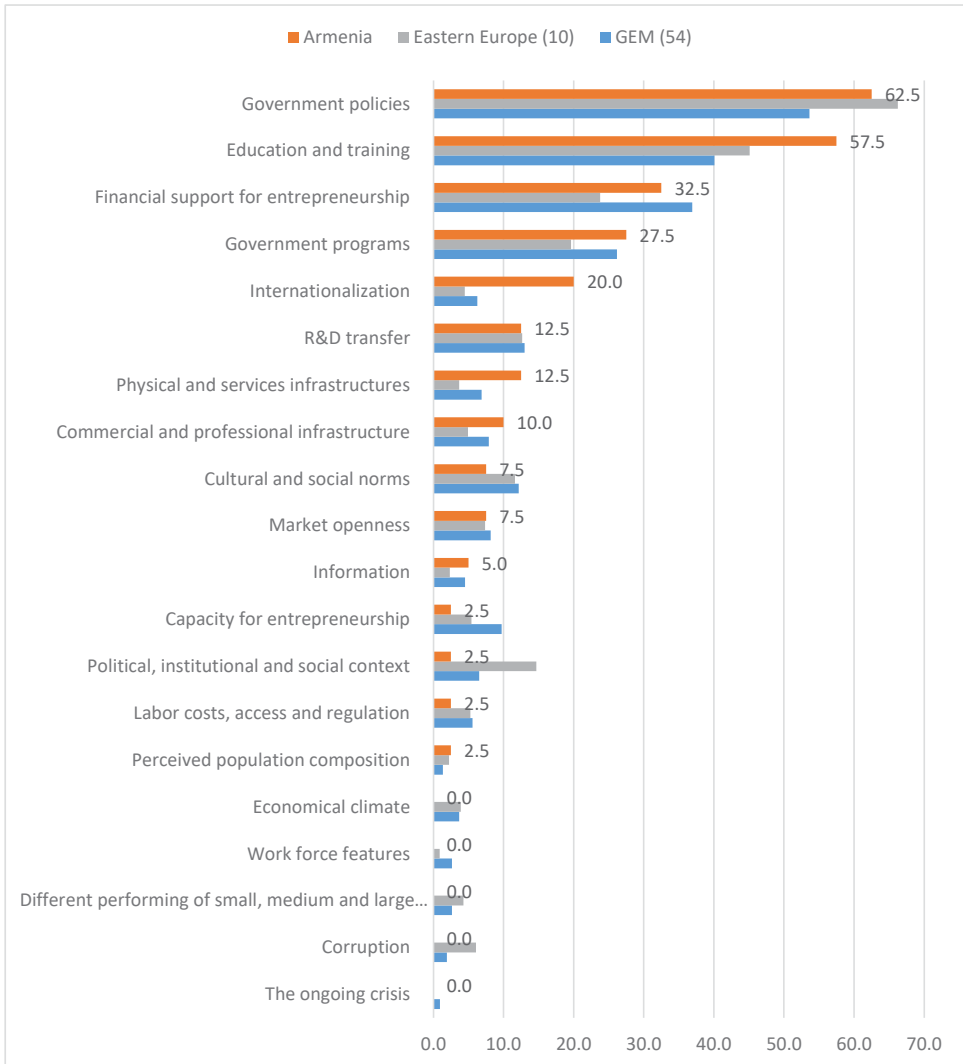
Source: GEM National Expert Survey 2019

**Financial support to entrepreneurship and Government programs for entrepreneurship** are two areas which were mentioned more frequently in Eastern European countries as fostering the entrepreneurial activity in their countries. While both of these areas are among three main constraints for entrepreneurship according to experts in Armenia.



It is not surprising to see above mentioned 2 areas are among top 4 with the number of **recommendations** by experts to improve entrepreneurial activity in Armenia. Anyway, more recommendations were given for areas of Government policies and Education and training.

**Figure 47. Topics/Areas recommended to improve entrepreneurial activity (% of times that experts cited an option)**



Source: GEM National Expert Survey 2019



Recommendations regarding Government policy mainly refer to continuous improvement of tax administration and legislative changes to provide incentives for entrepreneurs in specific activities, but also to have clear strategy for entrepreneurship development. It is interesting that even if the experts' rating of Government policies related to taxes and bureaucracy improved and is higher than GEM 54 country average (see sub-chapter 7.4), the main part of experts' recommendations refer to this component again. This is perhaps because the country is in the process of transition now, when even if improvements in taxes and bureaucracy are noticed, the experts still think that this is the component, which have to be improved most. This perhaps is an evidence of stereotype thinking, which states that transition period is not over yet.

Recommendations on Education and training component mainly refer to introduction of educational programs in primary, vocational and higher education focusing on entrepreneurial activity. The experts mentioned the need for more financial support to new and growing micro and small businesses, which mainly should be done through government programs to foster entrepreneurship.

The focus of recommendations to improve entrepreneurial activity in Armenia is much more in line with the recommendations for Eastern European and all 54 GEM countries, while constraints and fostering areas mentioned by experts are slightly different.

## 7.6 Conclusions

- ▶ Armenia is in the middle position by assessment of overall entrepreneurial activity by NECI (27<sup>th</sup> out of 54 countries in 2019 GEM). Among 10 Eastern European countries, Armenia has the 2<sup>nd</sup> highest score.
- ▶ The countries with highest NECI score have more balanced entrepreneurial activity level between new businesses and established businesses, while in Armenia the share of new businesses is much higher compared to established ones. **The further development of entrepreneurship conditions in Armenia should focus more on providing better conditions to sustain a venture into an established business.**
- ▶ Armenia has higher score compared to GEM average with 6 out of 12 components. The largest positive difference is for Government policy: taxes, bureaucracy (7<sup>th</sup> position out of 54) and Cultural, and social norms (11<sup>th</sup> out of 54). While Cultural and social norms are perceived as usual advantage



for Armenia for entrepreneurship, Government policy better assessment is a result of recent political and economic changes and quick solutions, which brought optimism.

▶ Armenia is behind GEM average by the following components of entrepreneurial activity: **(i) Entrepreneurial education, (ii) R&D transfer and (iii) Government entrepreneurial programs. These areas need to be strengthened the most to foster entrepreneurship activity in the country.**

▶ On the other hand, according to the experts:

- **main areas constraining entrepreneurial activity** in Armenia are: Governmental policies (47.5% of times mentioned), Financial support for entrepreneurship (40.0%), Government programs (35.0%), Capacity of entrepreneurship and Education, trainings. The prevalence of recommendations regarding to Government policy changes in taxes and bureaucracy along with better ration of this component compared to other countries speaks about still on-going transition in minds.
- Cultural and social norms is the **main area fostering entrepreneurial activity** in Armenia, while Financial support to entrepreneurship and Government programs were mentioned in Eastern Europe,
- Government policies and Education and training areas as well as Financial support and Governmental programs are areas with largest number of recommendations by experts in Armenia.

GEM national team had imposed hypothesis regarding entrepreneurial activities for TEA and EBO in Armenia before the surveys. NES results come to confirm or reject several of these hypotheses.

### 1. **Financial challenges are big issues for entrepreneurs to start their business.**

*The hypothesis is confirmed.* According to NES, Financial support for entrepreneurship is the second main area constraining entrepreneurial activity in Armenia (with 40% of mentions) after Governmental policies (47.5% of times mentioned). As opposite, financial support to entrepreneurship was mentioned in Eastern Europe as one of main areas fostering entrepreneurship.



## 2. Entrepreneurial education affects the level of entrepreneurship in the country.

*The hypothesis is confirmed.* According to NES, Education and trainings were mentioned among the areas that are constraining entrepreneurial activity in Armenia. Armenian indicator of Entrepreneurial education is below GEM average (50th out of 54 countries for post-school education and 36th for school level).

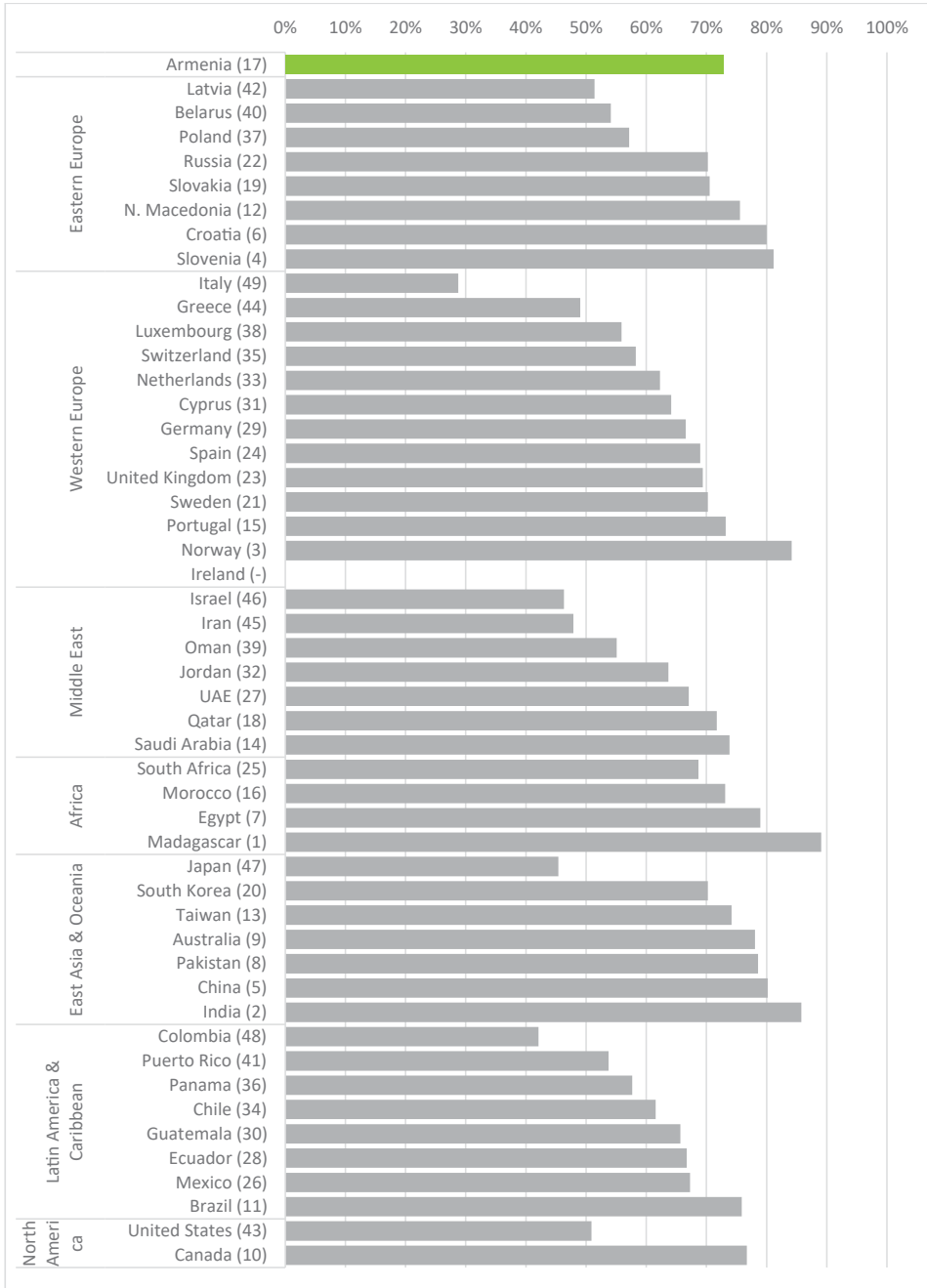
### ► Recommendation:

- **The strategy of development of entrepreneurship conditions in Armenia should focus more on providing better conditions to sustain a venture into an established business and not only on new businesses.**
- **Entrepreneurial education and Government entrepreneurial programs are areas need to be strengthen the most to foster entrepreneurship activity in the country.**
- **R&D transfer (particularly government subsidies for firms to acquire new technologies) and Financial support to new and growing businesses are the areas which should be taken into account, while improving educational component and designing governmental entrepreneurship programs.**



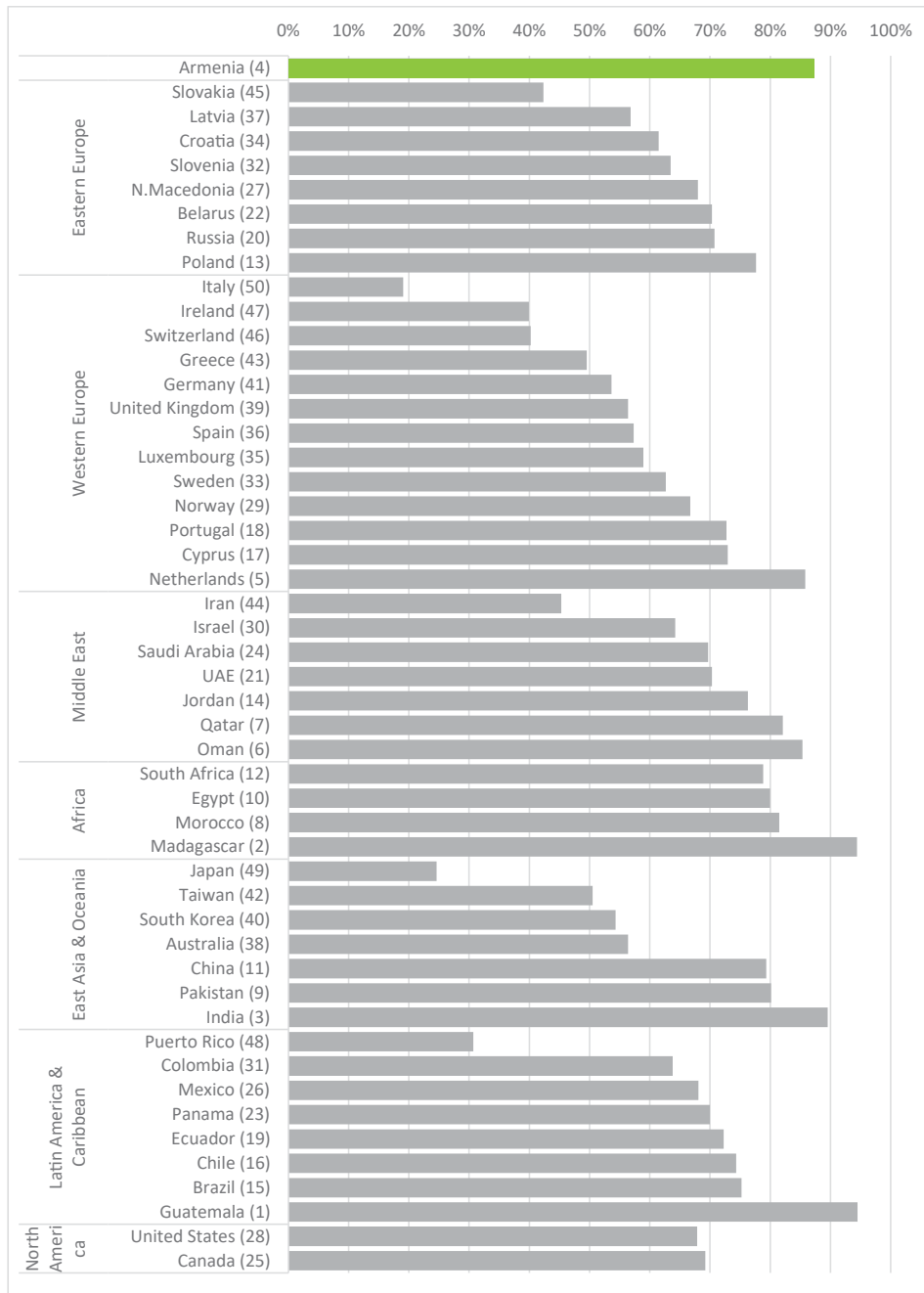
## ANNEX 2. Social and Cultural Foundations

2.1 In your country, most people would prefer that everyone had a similar standard of living (% of adults, who agreed to the statement)

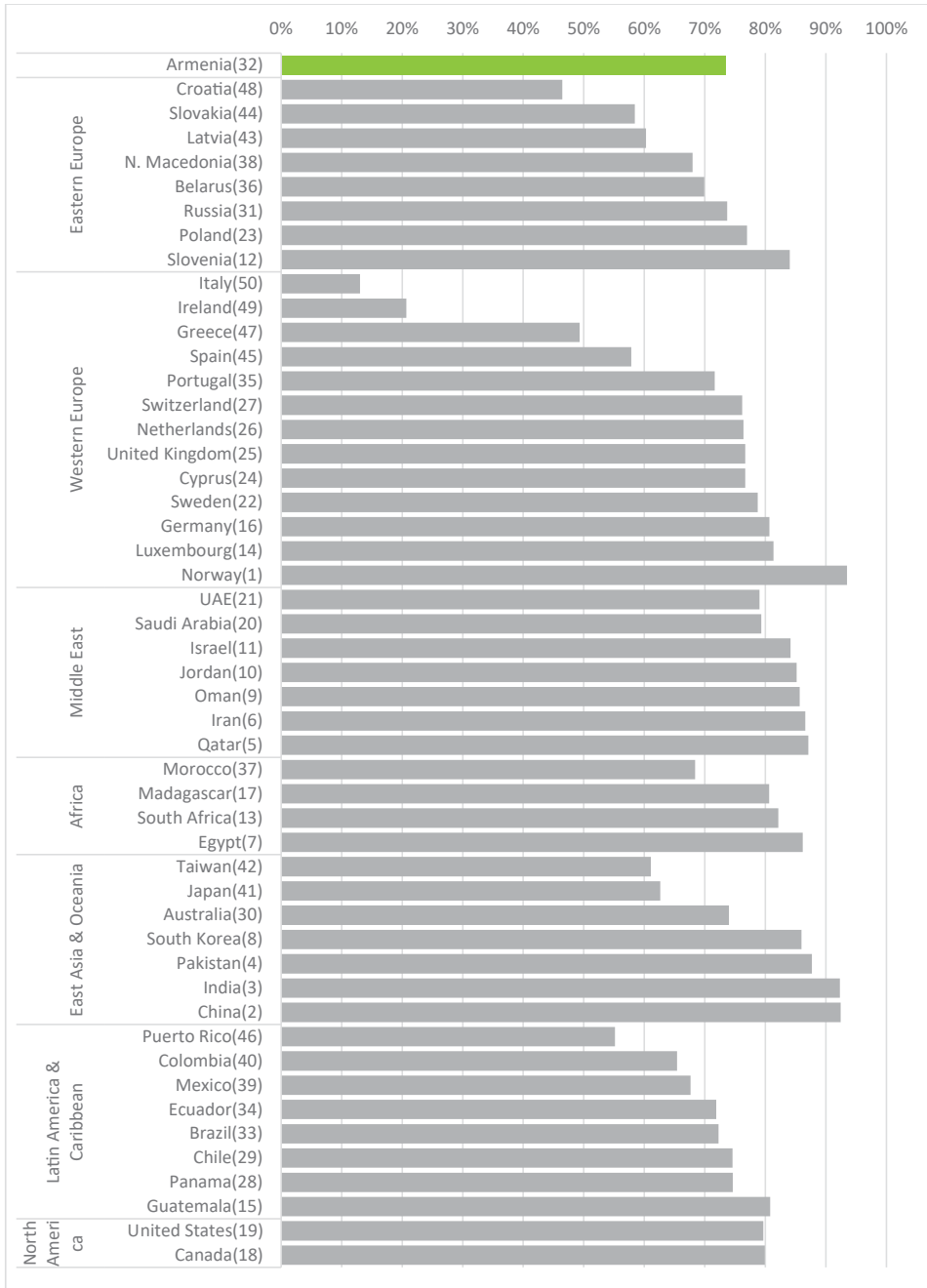




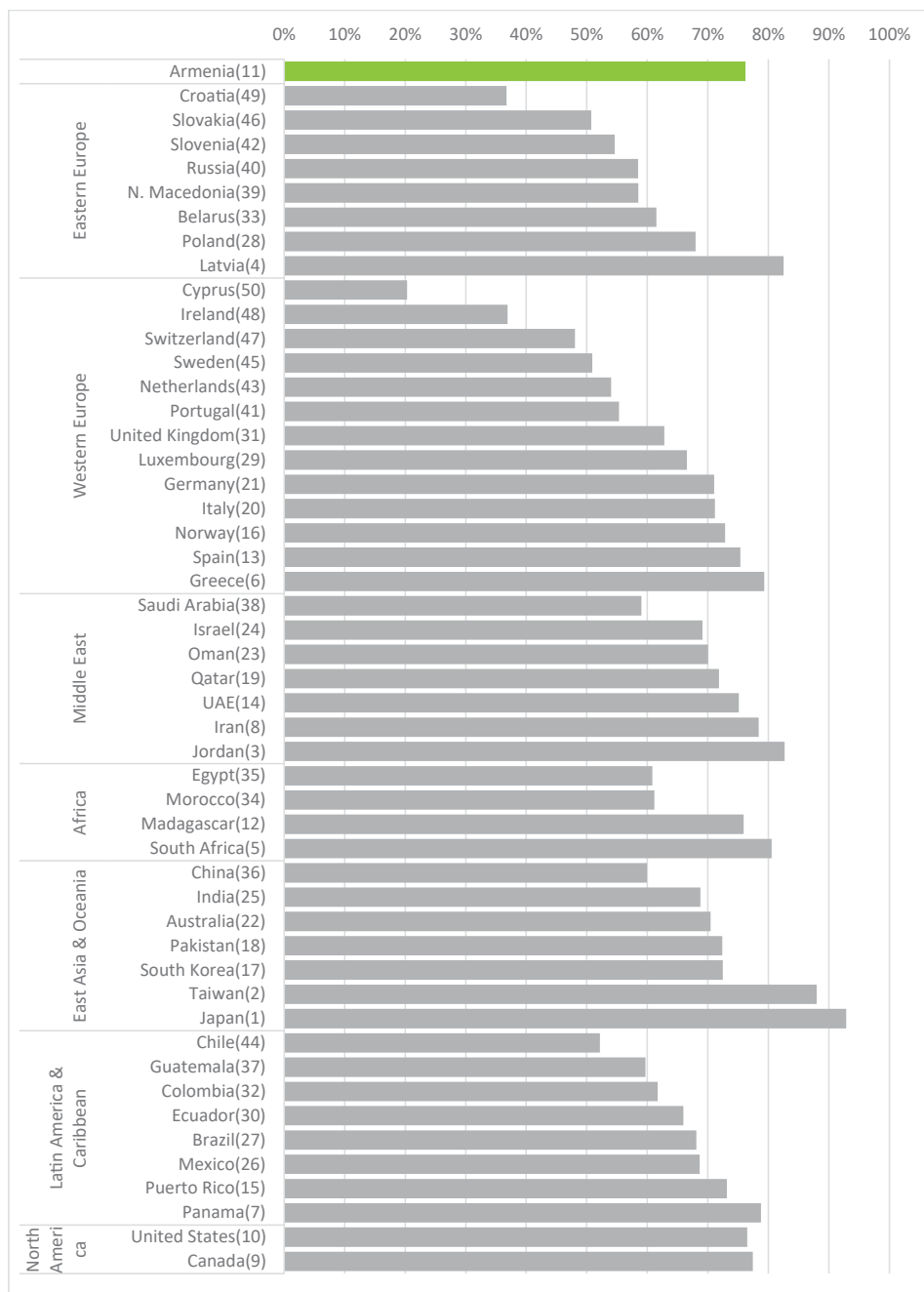
2.2 In your country, most people consider starting a new business a desirable career choice (% of adults, who agreed to the statement)



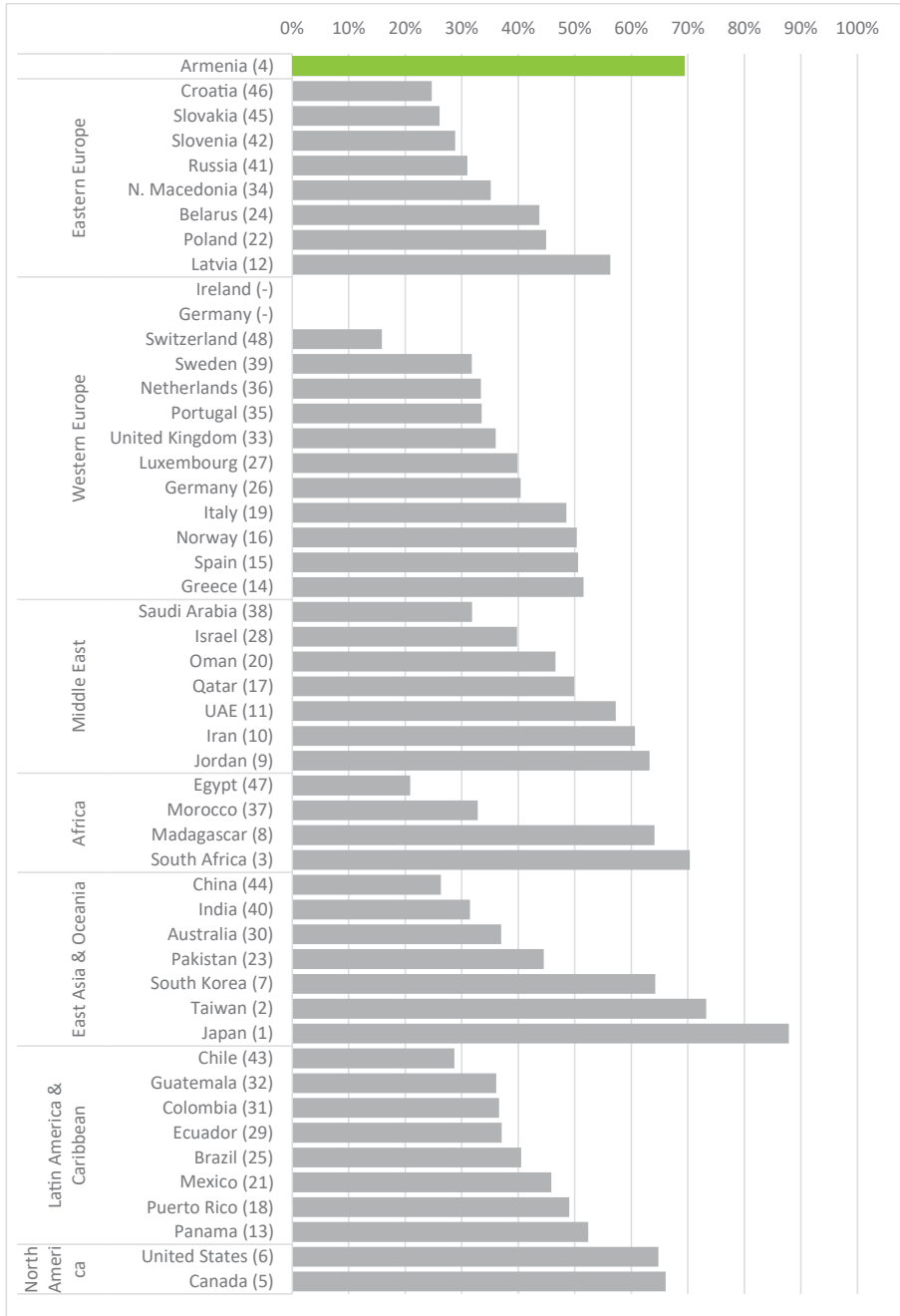
2.3 In your country, those successful at starting a new business have a high level of status and respect (% of adults, who agreed to the statement)



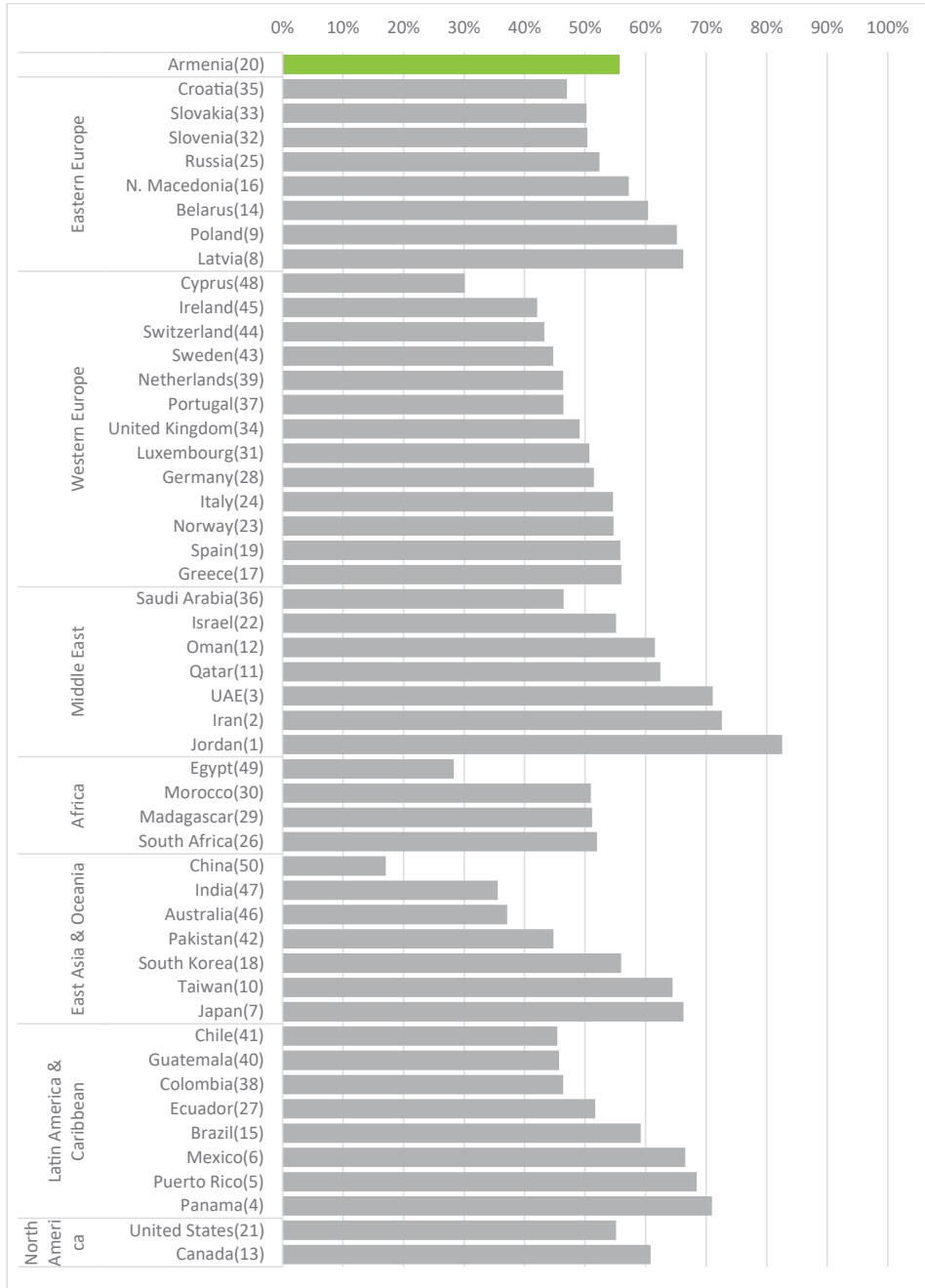
2.4 In your country, you will often see stories in the public media and/or internet about successful new businesses (% of adults, who agreed to the statement)



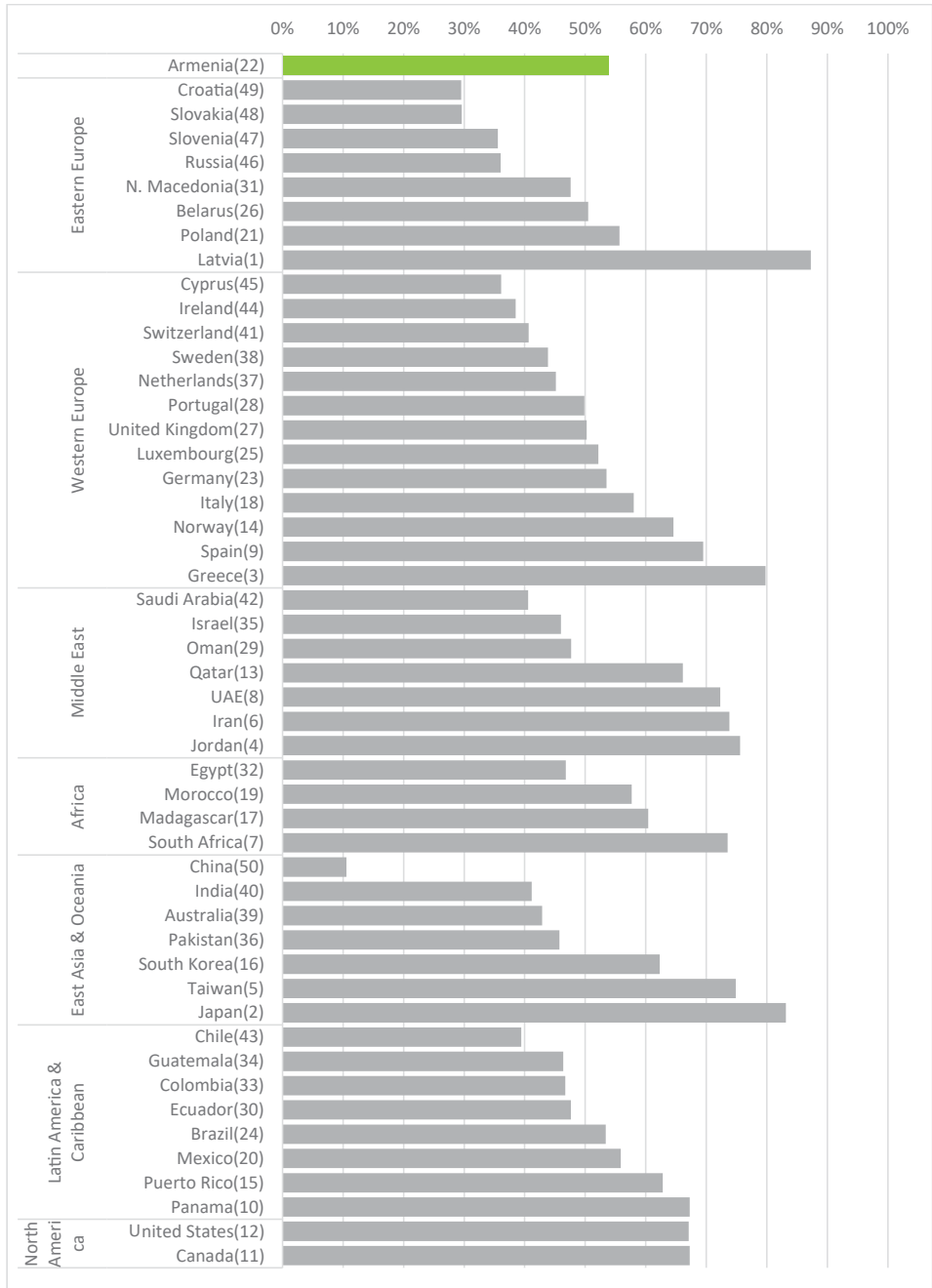
2.5 In your country, you will often see businesses that primarily aim to solve social problems (% of adults, who agreed to the statement)



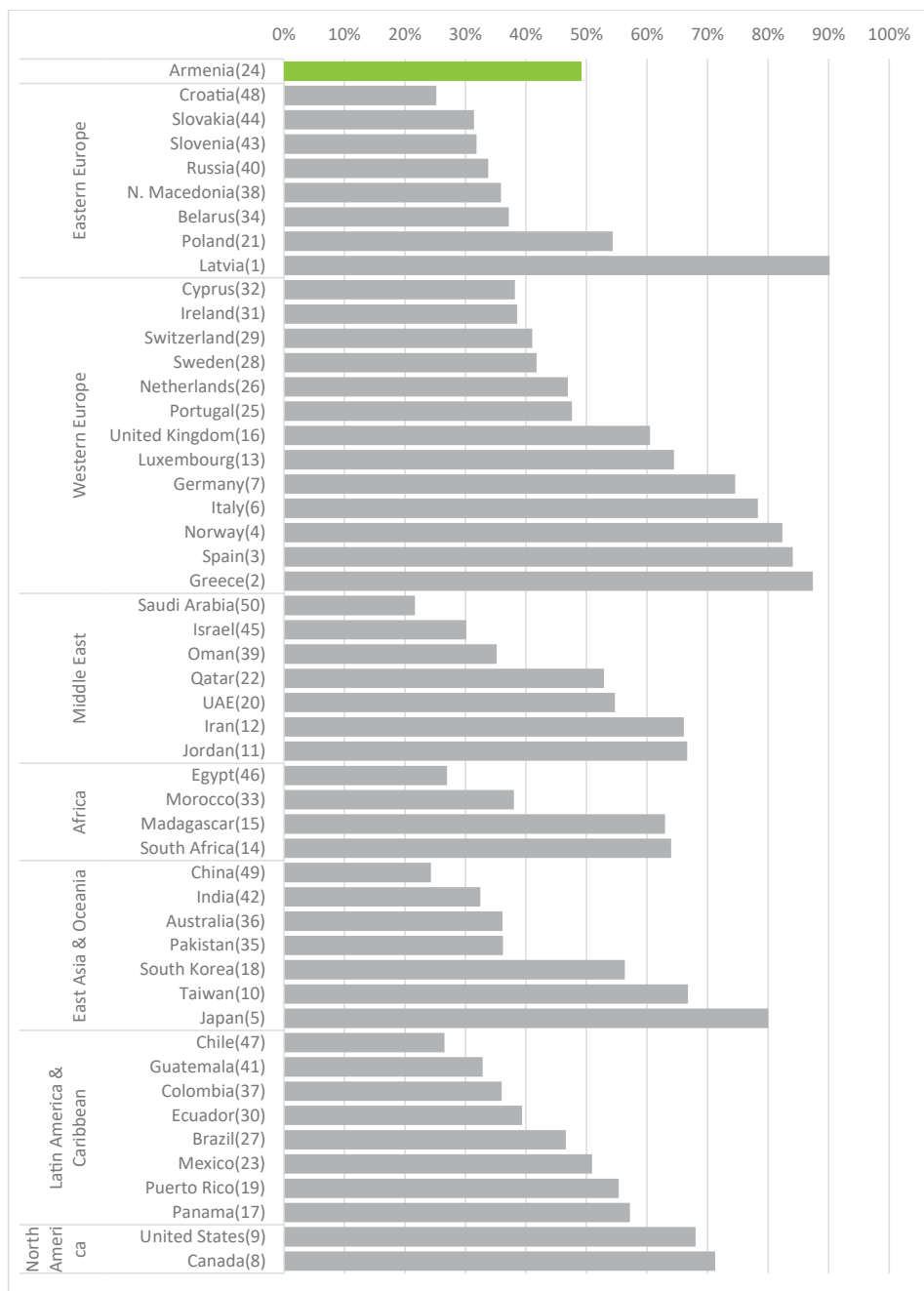
2.6 How many people do you know personally who have started a business or become self-employed in the past 2 years? (% of adults, who knows at least one)



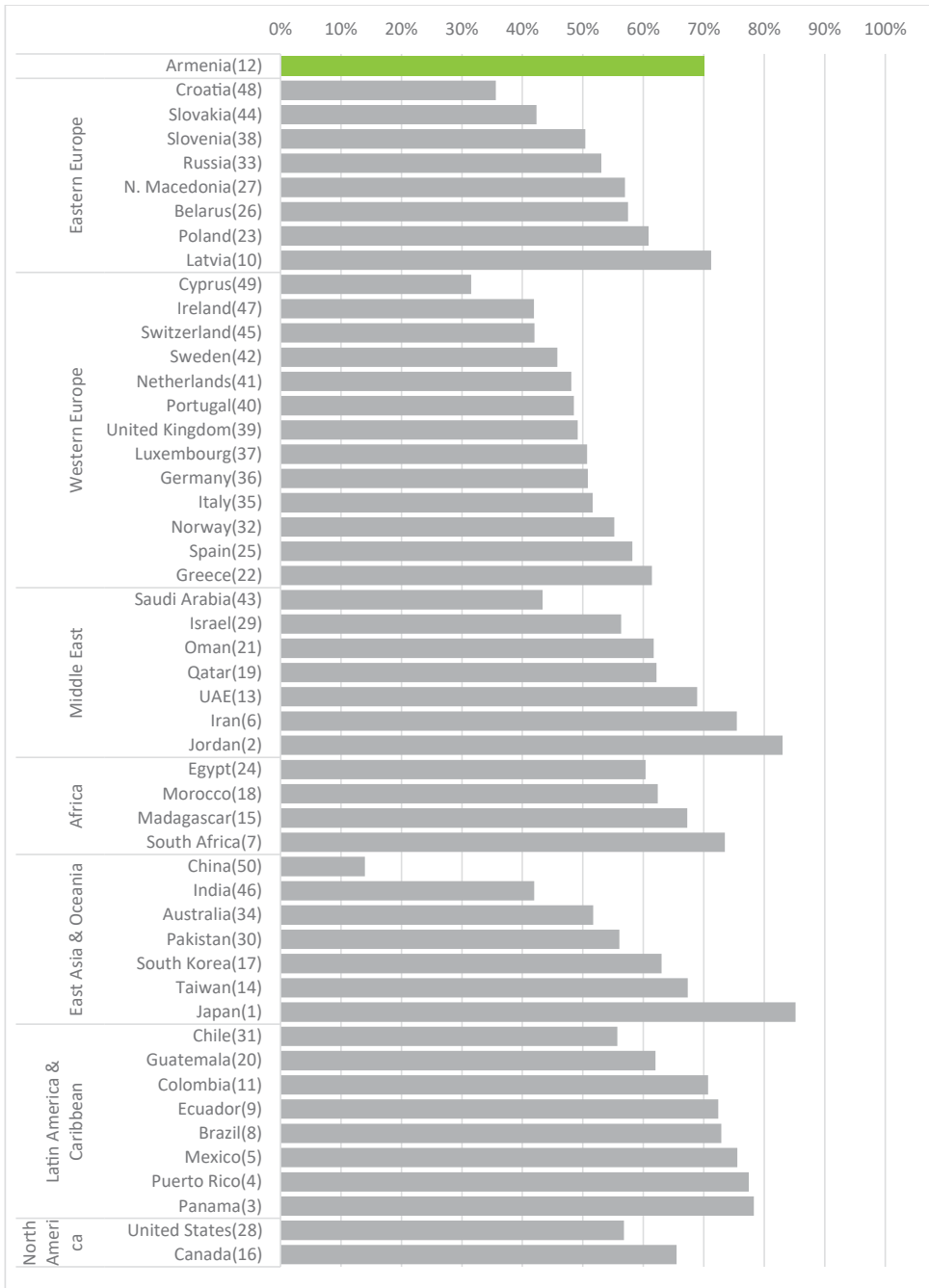
2.7 In the next six months, there will be good opportunities for starting a business in the area where you live (% of adults, who agreed to the statement)



2.8 In your country, it is easy to start a business (% of adults, who agreed to the statement)

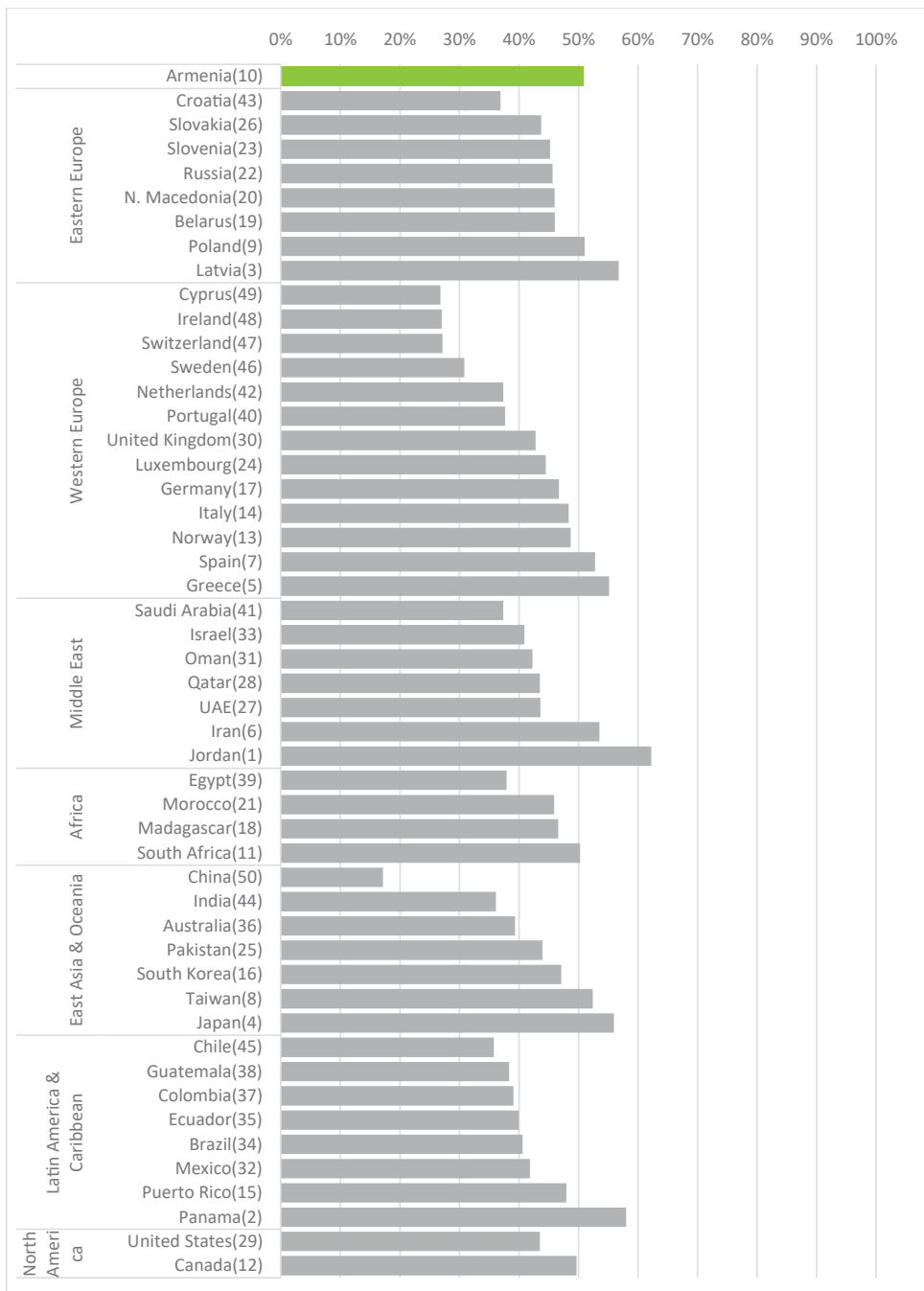


2.9 You personally have the knowledge, skill and experience required to start a new business (% of adults, who agreed to the statement)

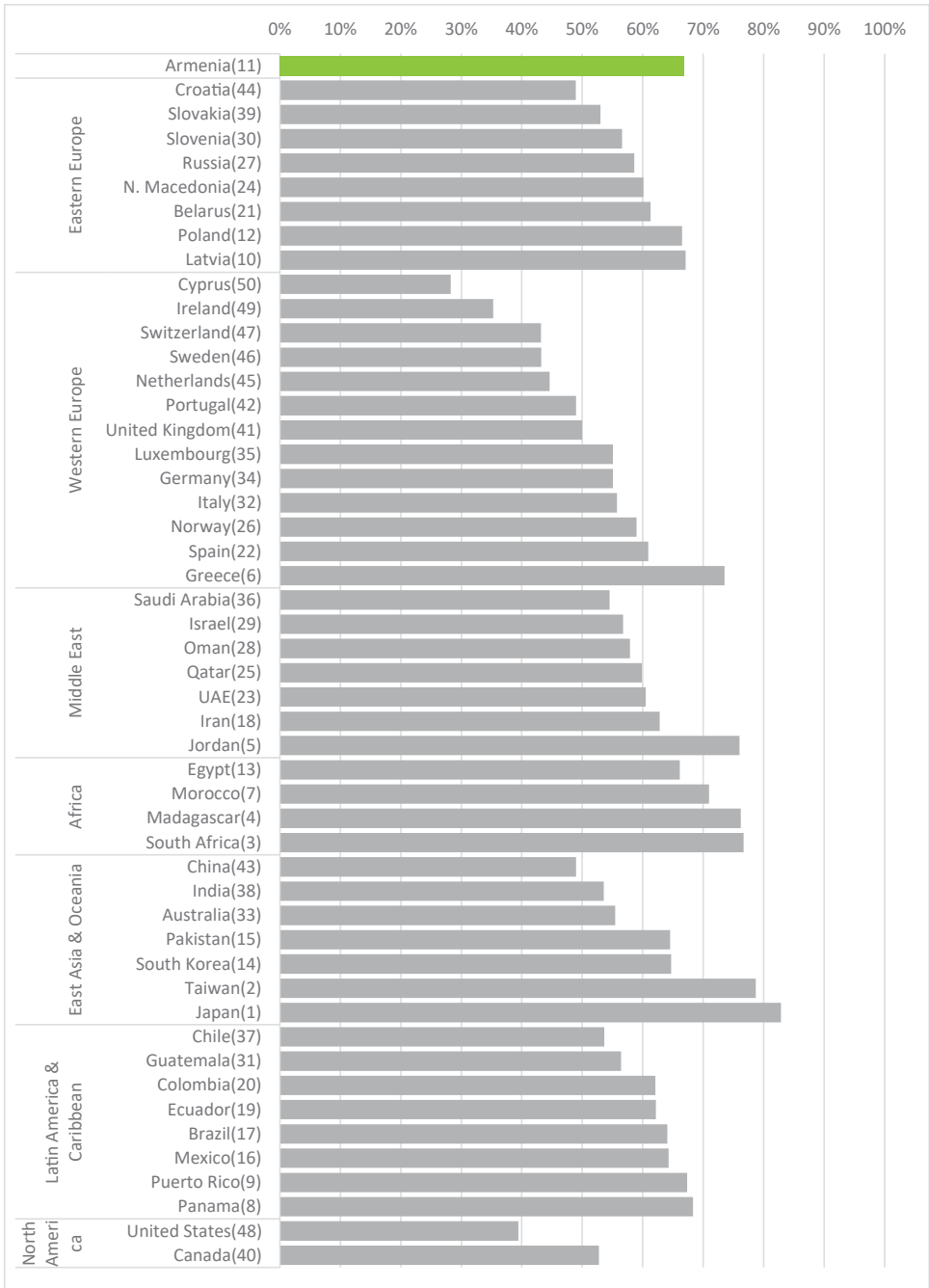




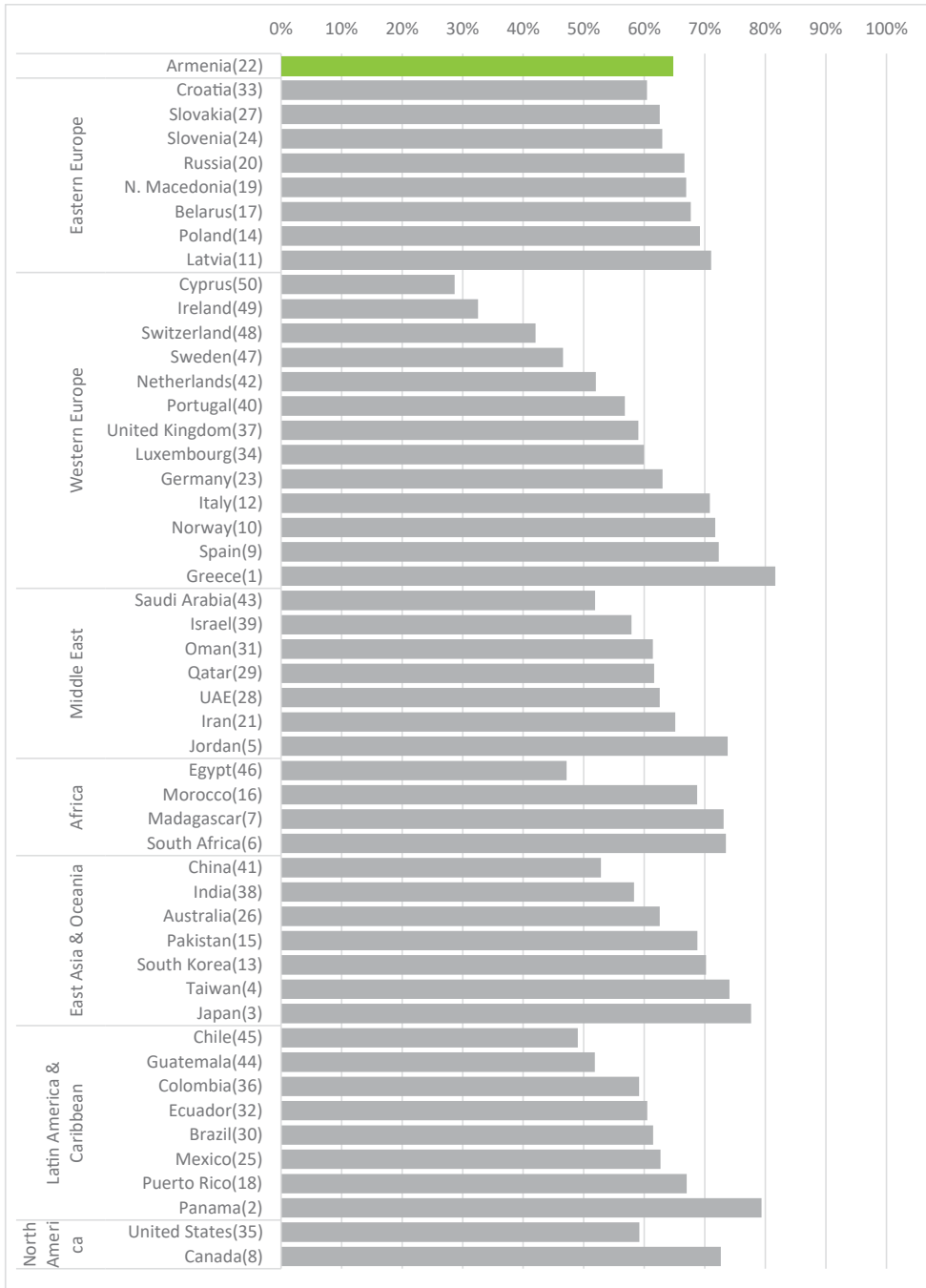
2.10 There are good opportunities, but would not start a business for fear of failure (% of adults, who agreed to the statement)



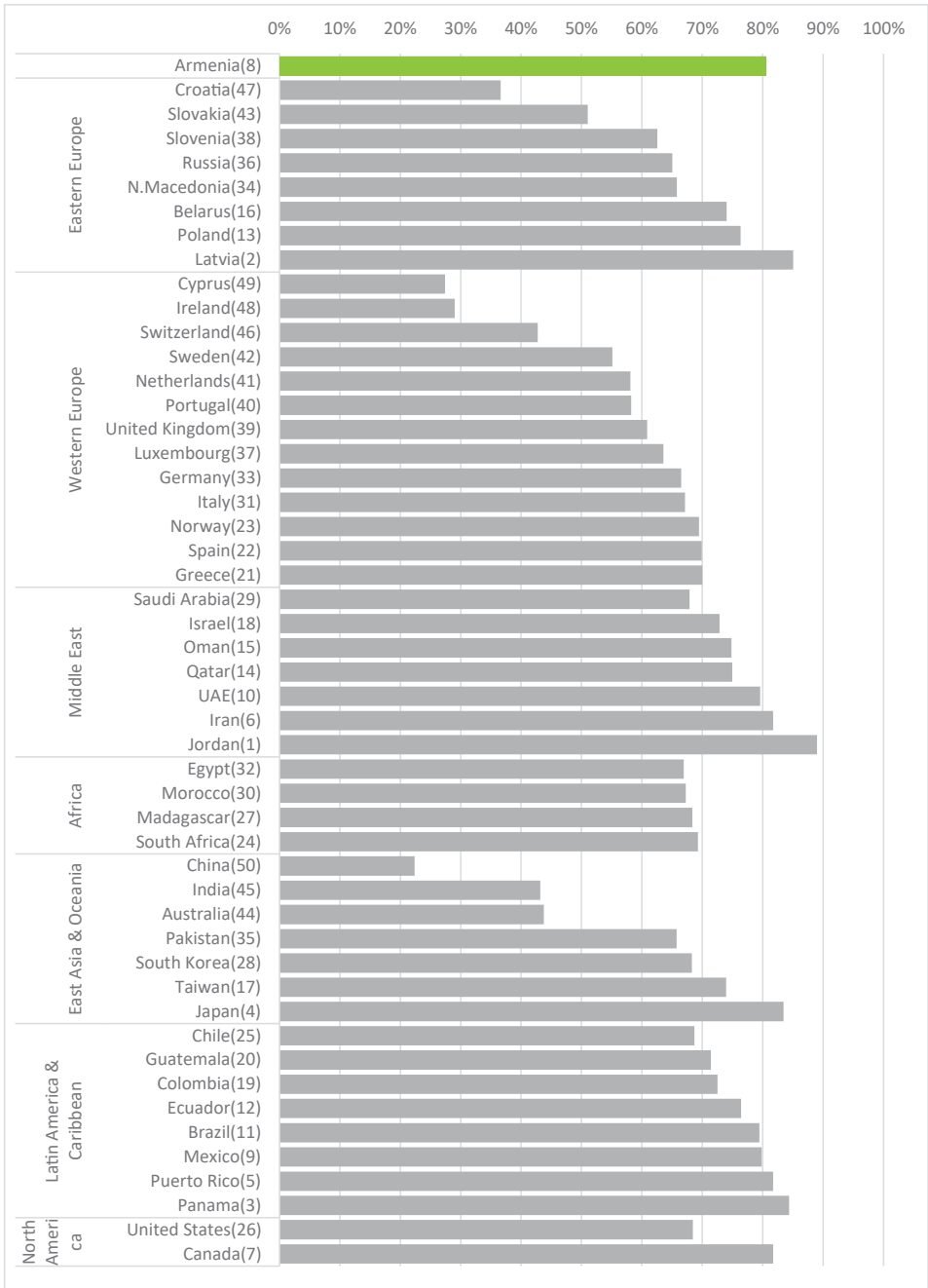
2.11 You rarely see business opportunities, even if you are very knowledgeable in the area. (% of adults, who agreed to the statement)



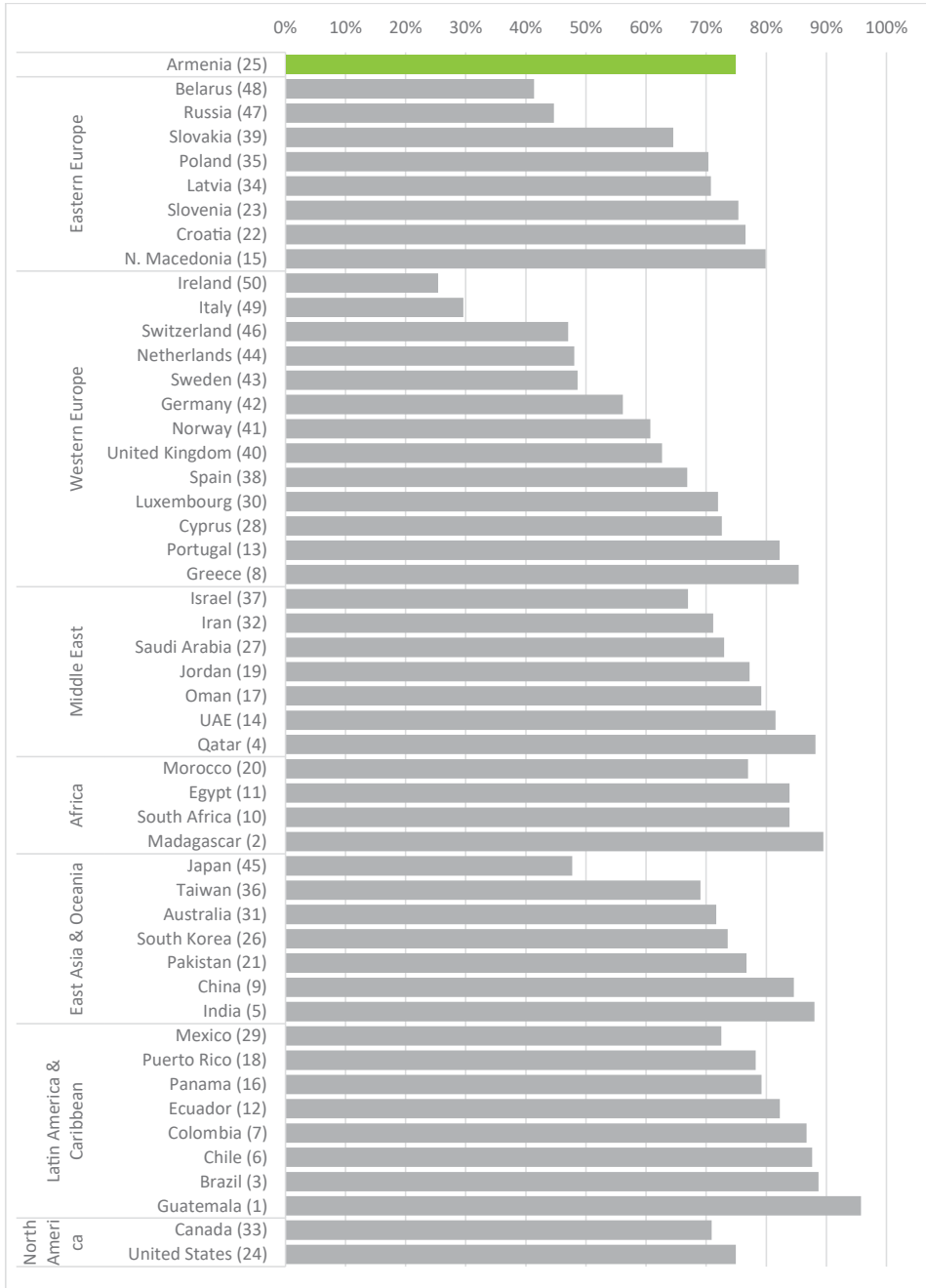
2.12 Even when you spot a profitable opportunity, you rarely act on it (% of adults, who agreed to the statement)



2.13 Other people think you are highly innovative: creativity (% of adults, who agreed to the statement)

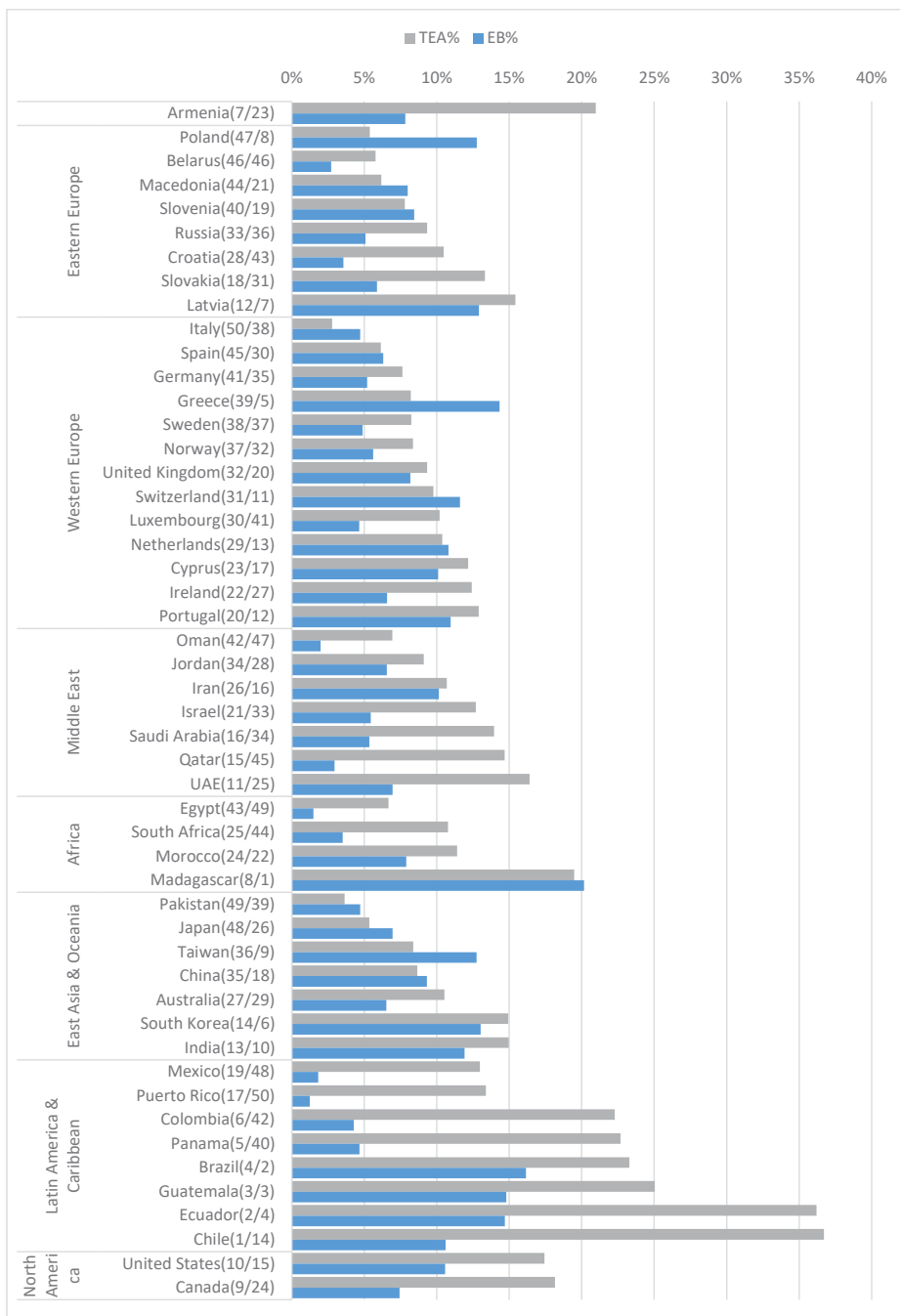


2.14 Every decision you make is part of your long-term career plan: vision  
 (% of adults, who agreed to the statement)

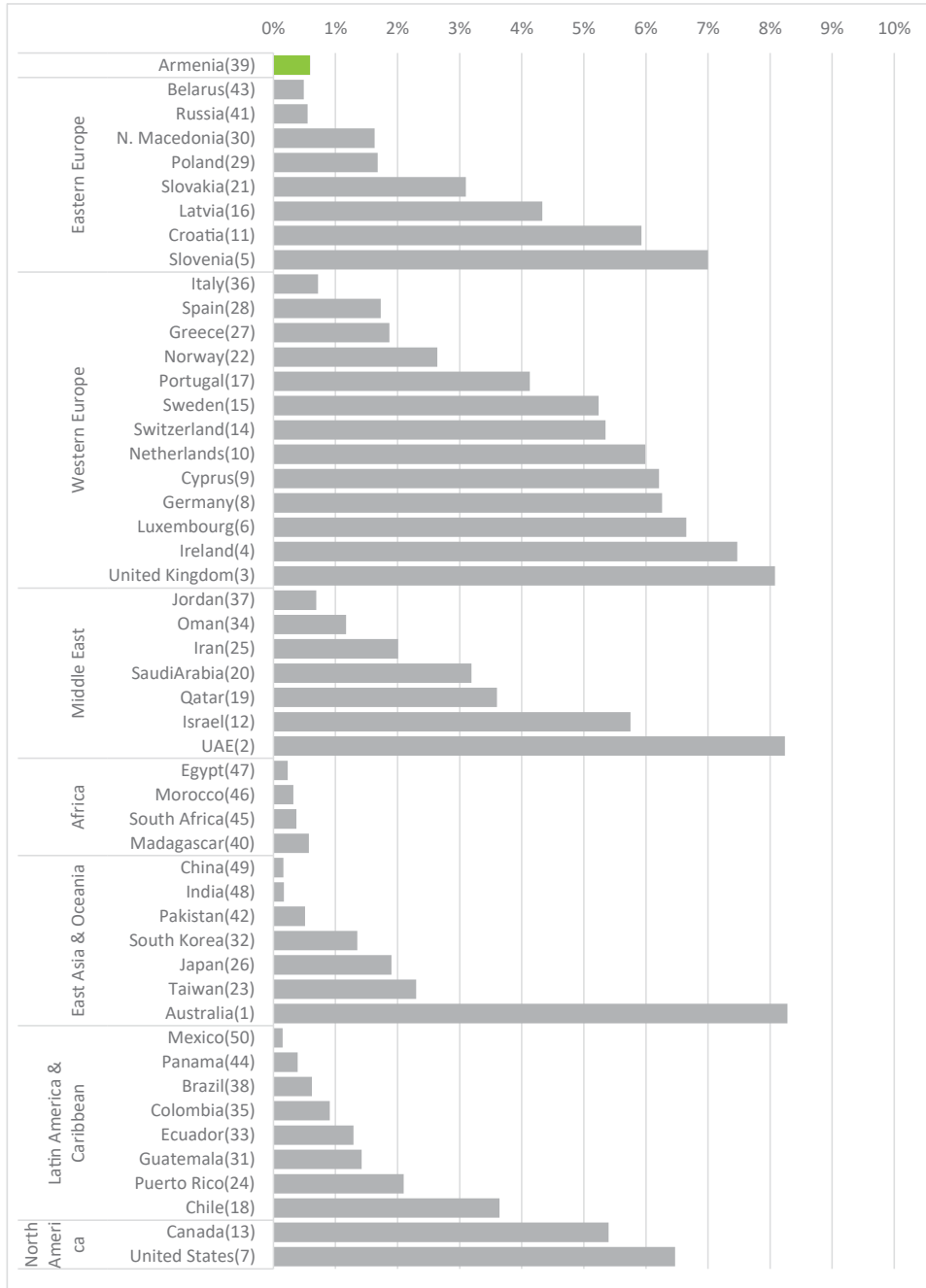


## ANNEX 3. Entrepreneurial Activity

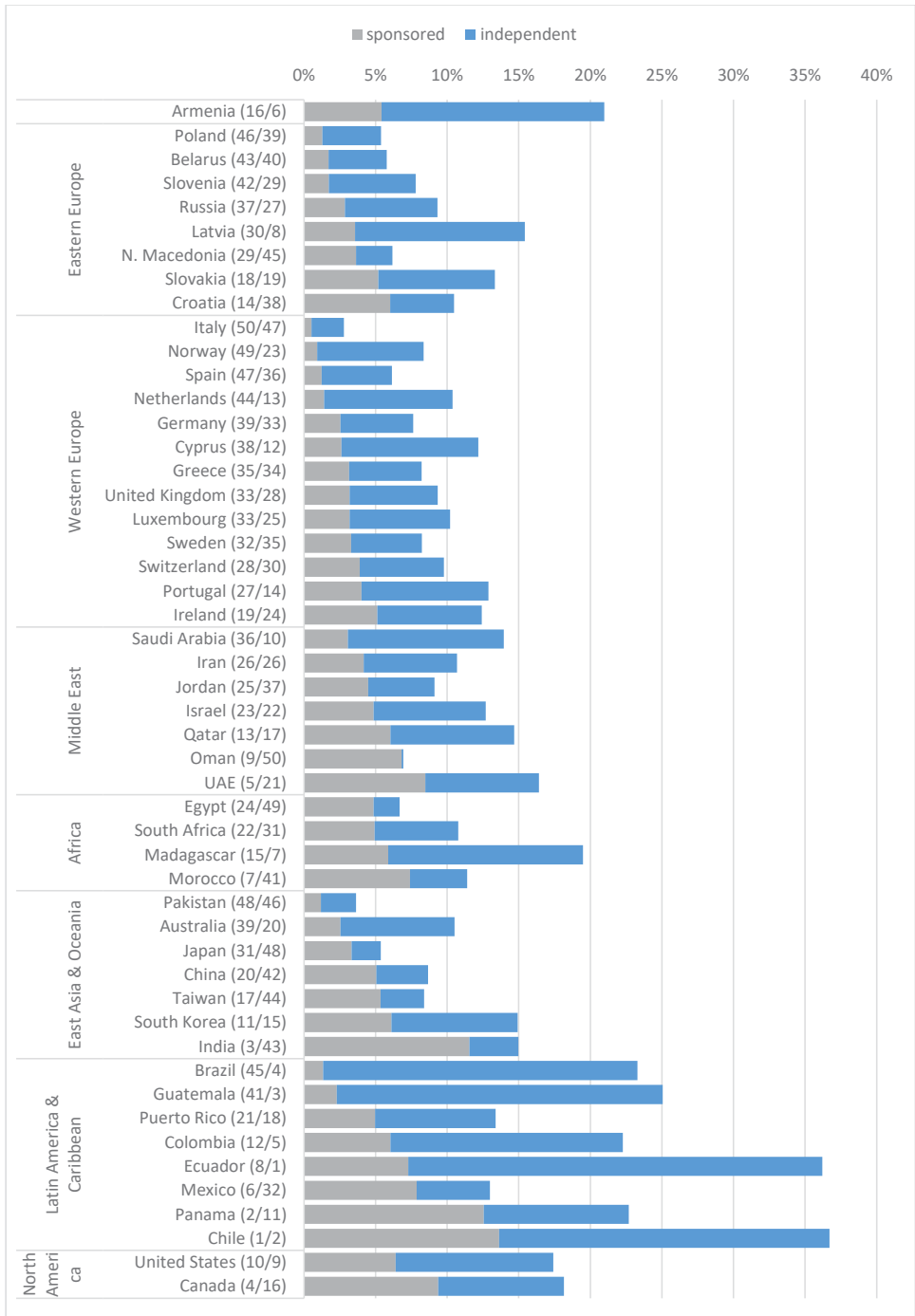
### 3.1 Level of TEA / EB (% of adults)



### 3.2 Level of EEA (% of adults)

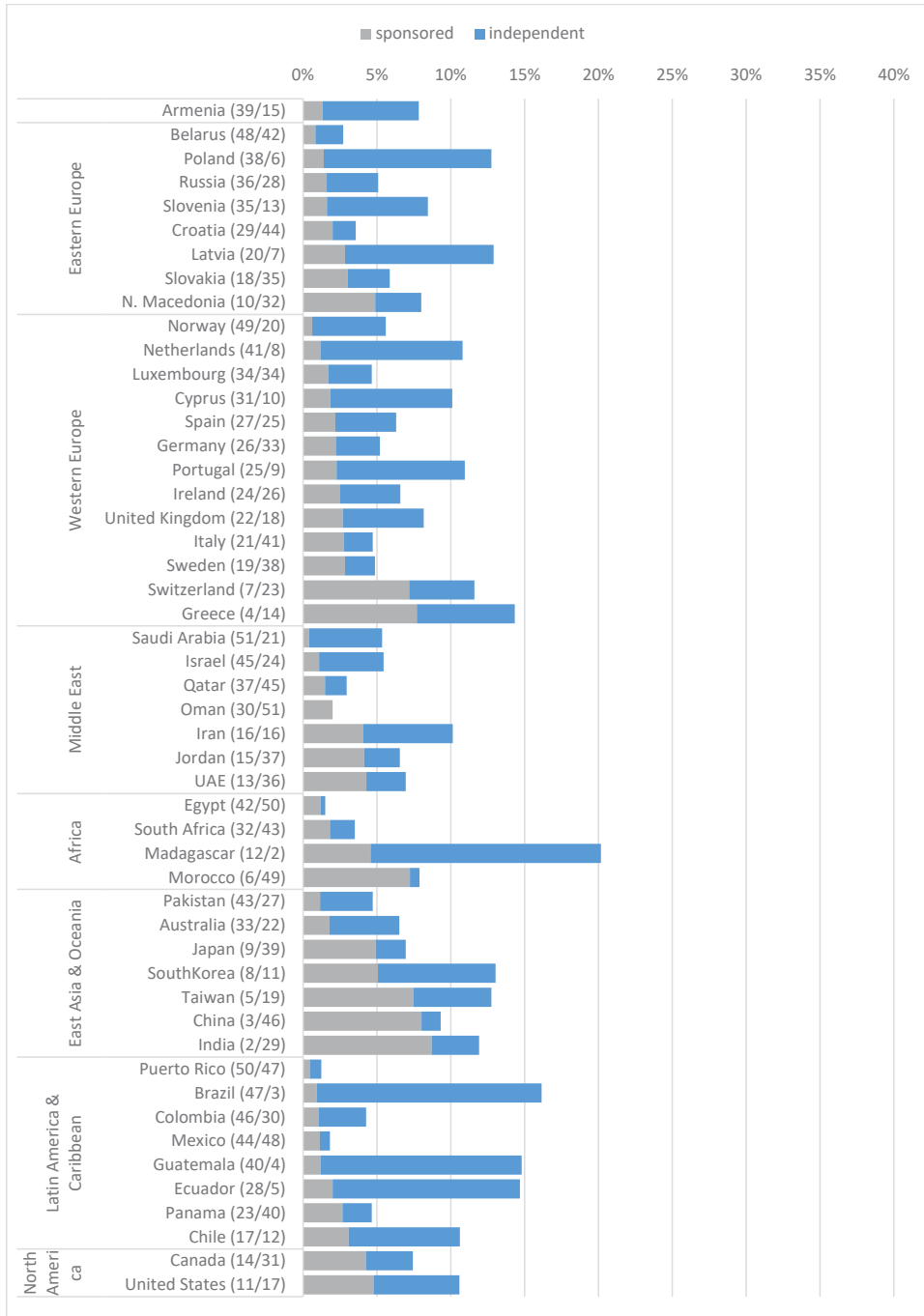


### 3.3 Sponsored and independent businesses in TEA (% in adults 18-64)

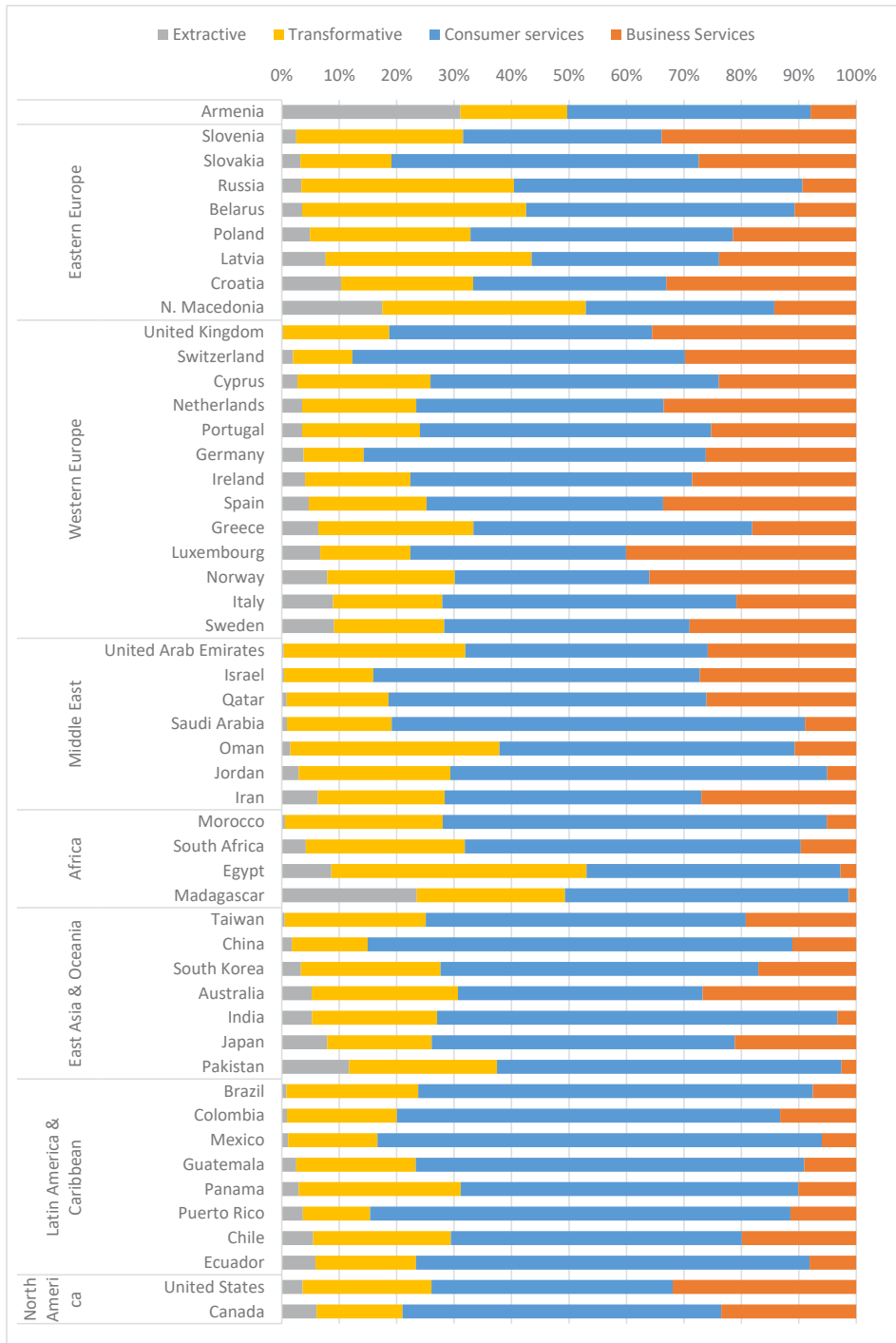




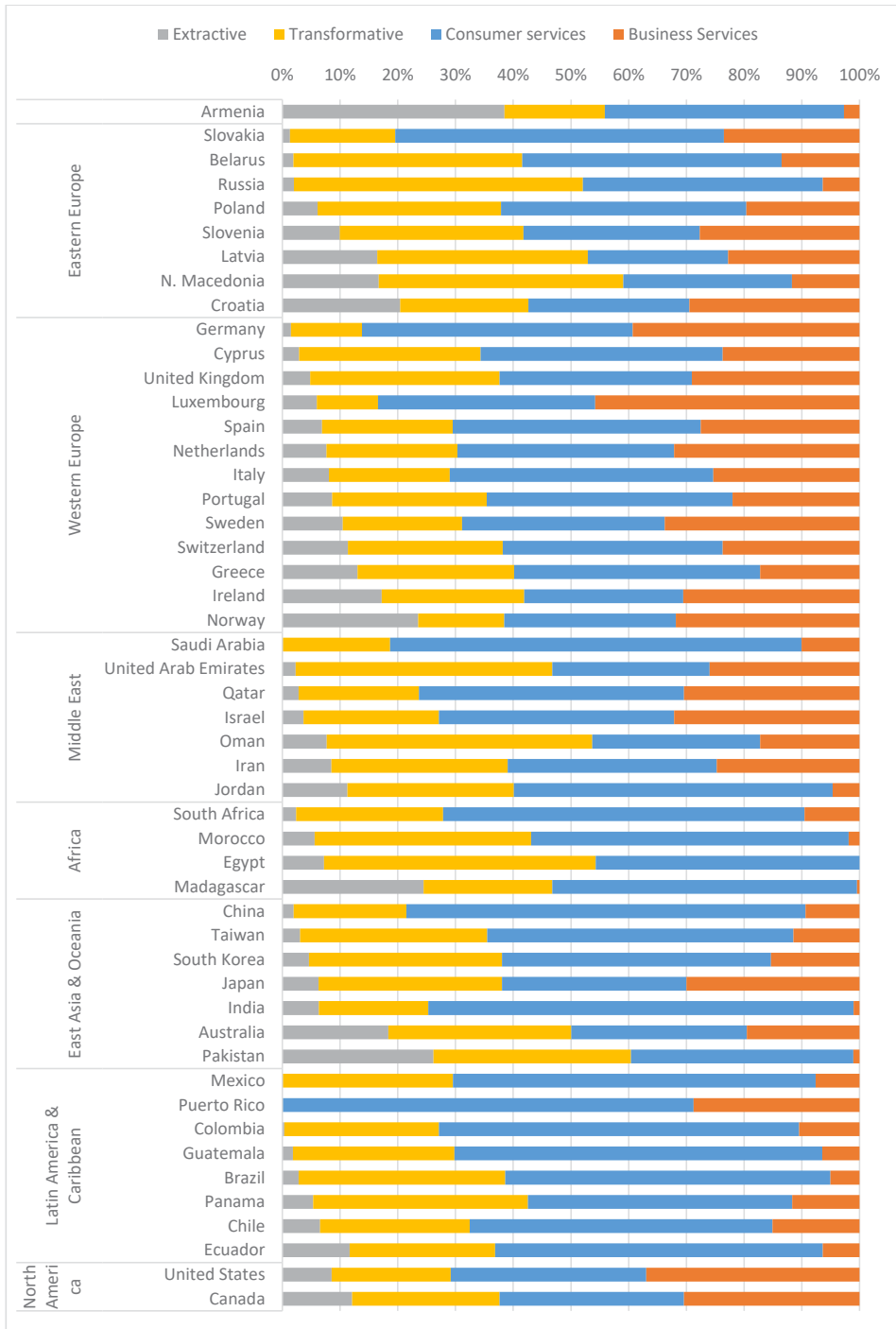
### 3.4 Sponsored and independent businesses in EBO (% in adults 18–64)



### 3.5 TEA Sectorial structure 2019 (% in all TEA)

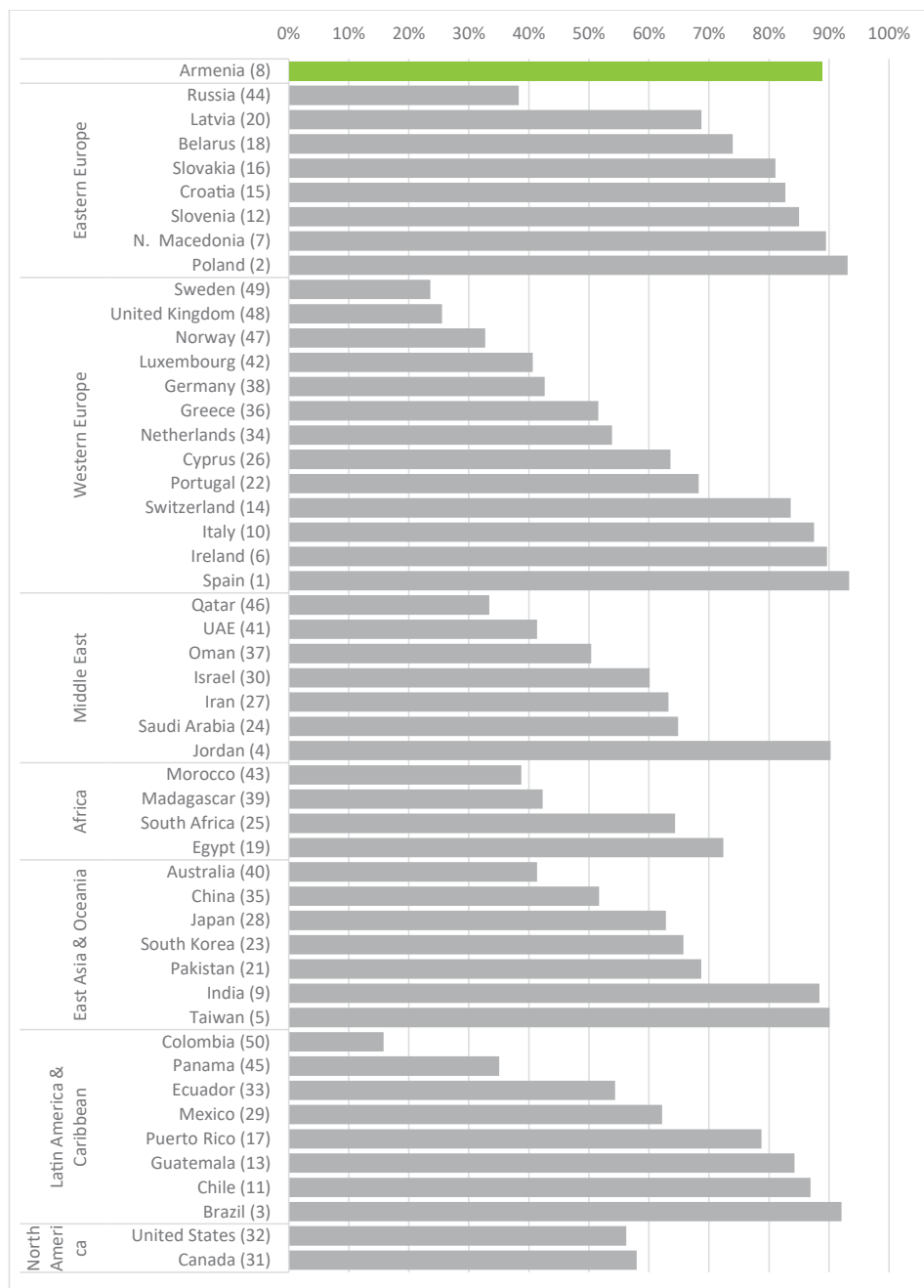


### 3.6 EBO Sectorial structure 2019 (% in all EBO)

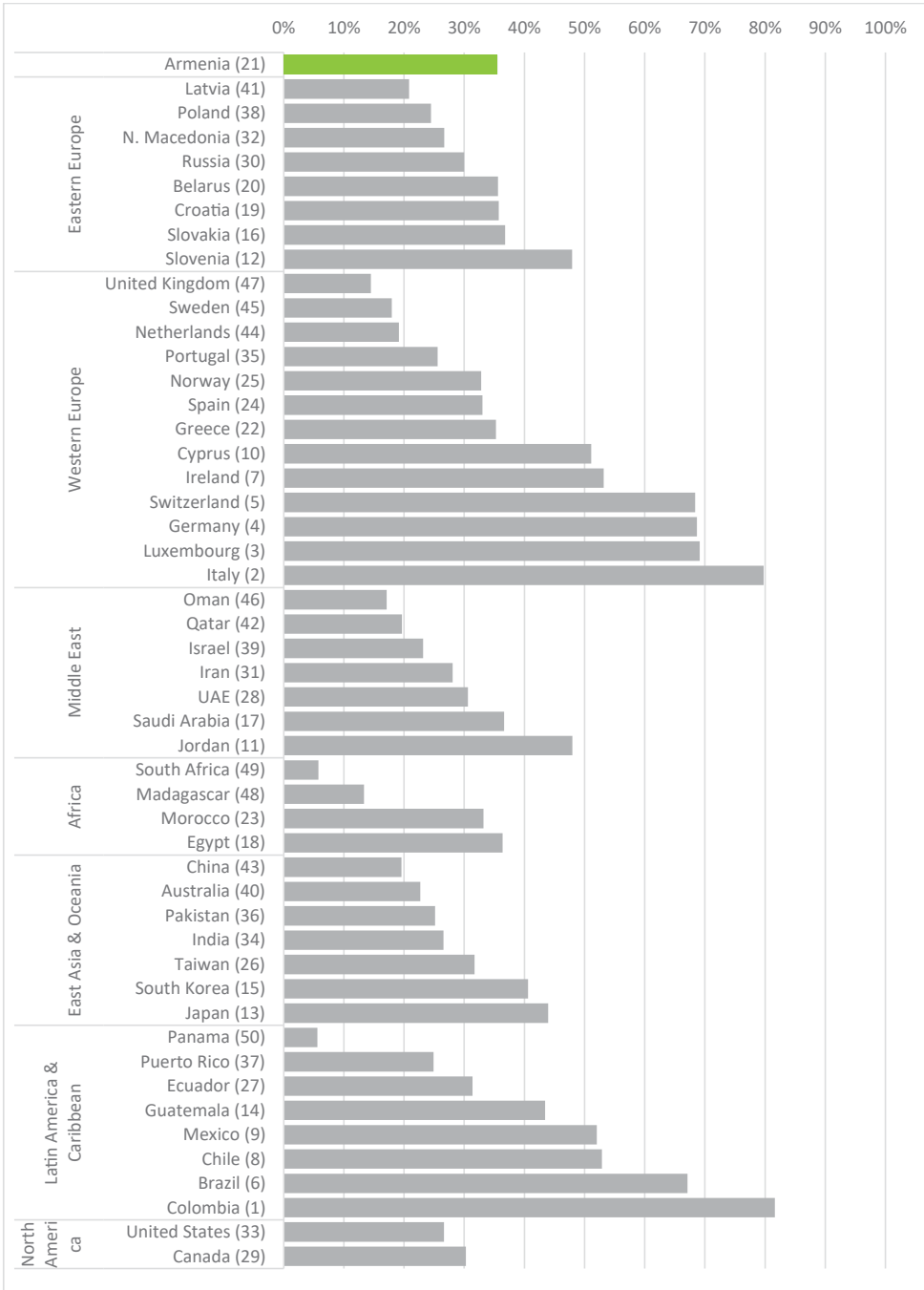


## ANNEX 4. Motivations to start or run a business

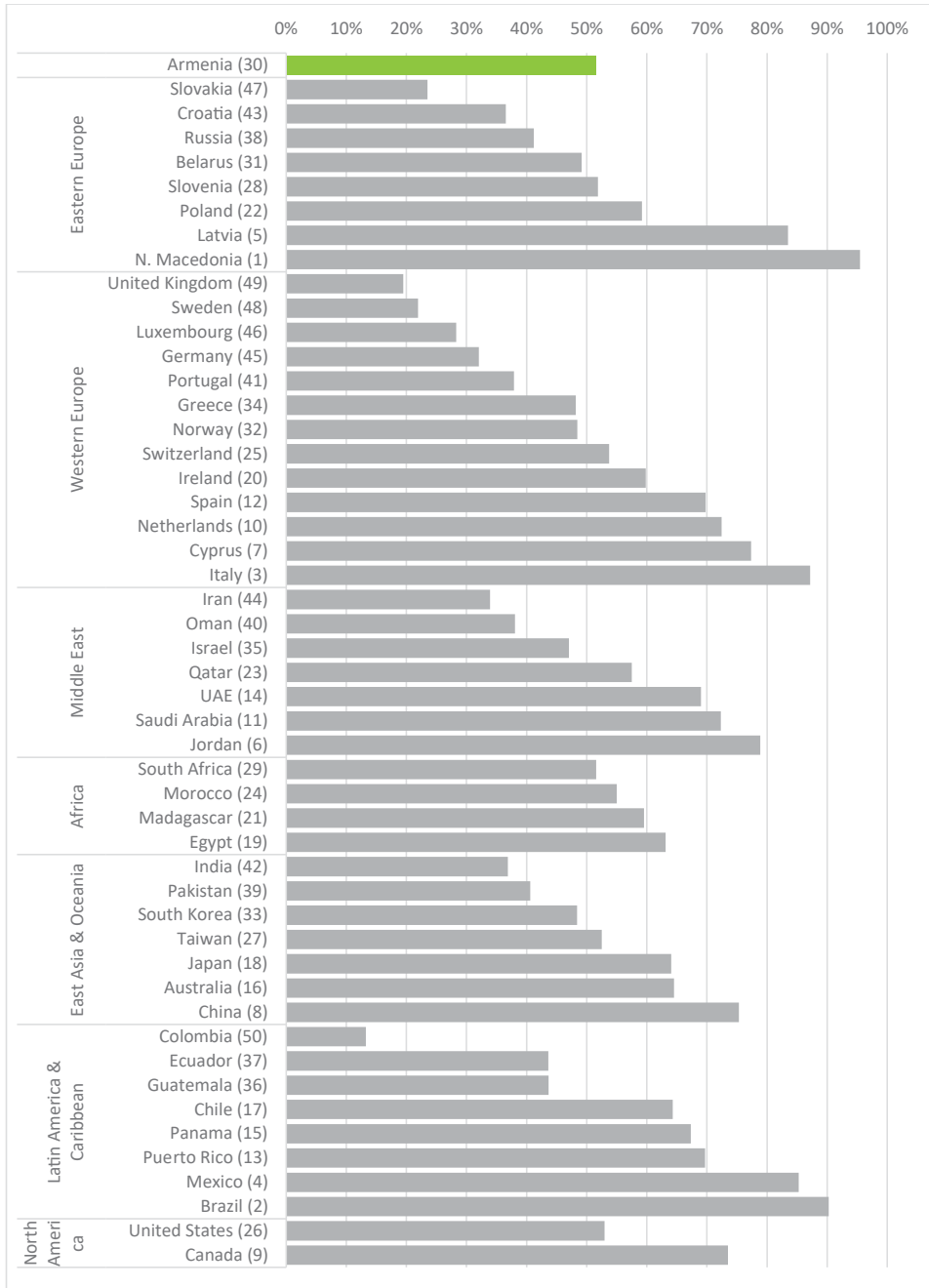
### 4.1 Motivation: To earn a living because jobs are scarce (% in TEA)



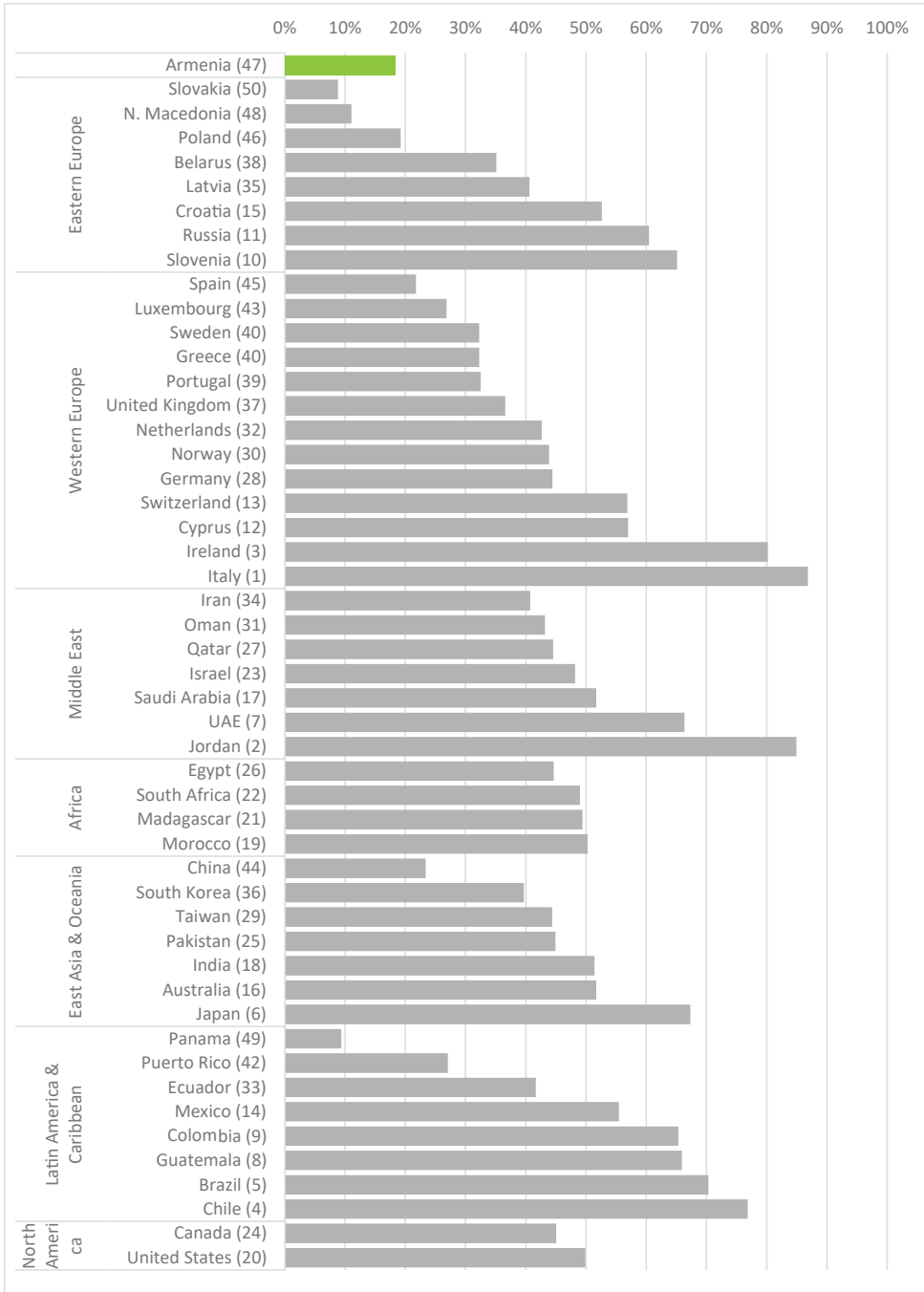
## 4.2 Motivation: To continue a family tradition (% in TEA)



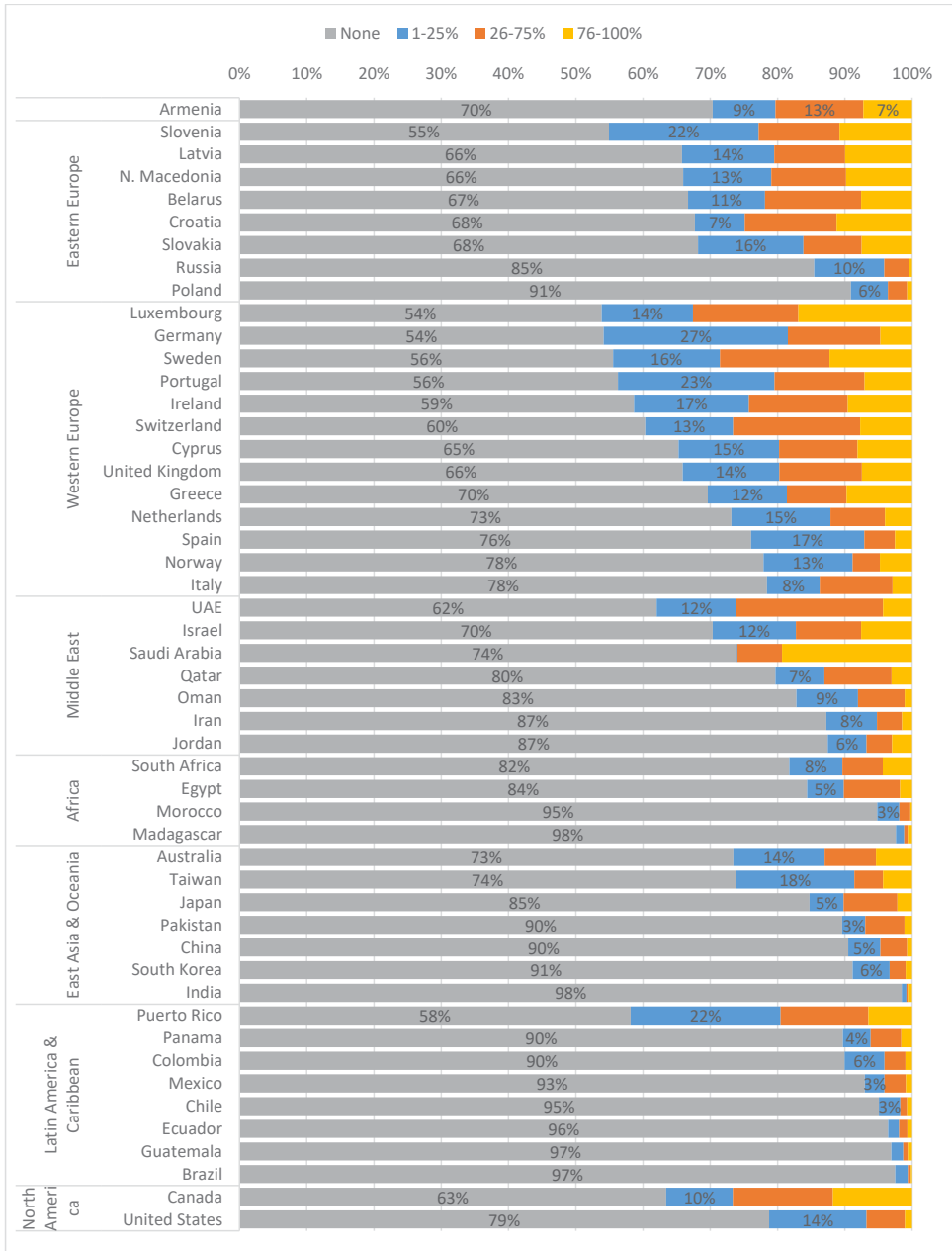
### 4.3 Motivation: To build great wealth or a very high income (% in TEA)



#### 4.4 Motivation: To make a difference in the world (% in TEA)



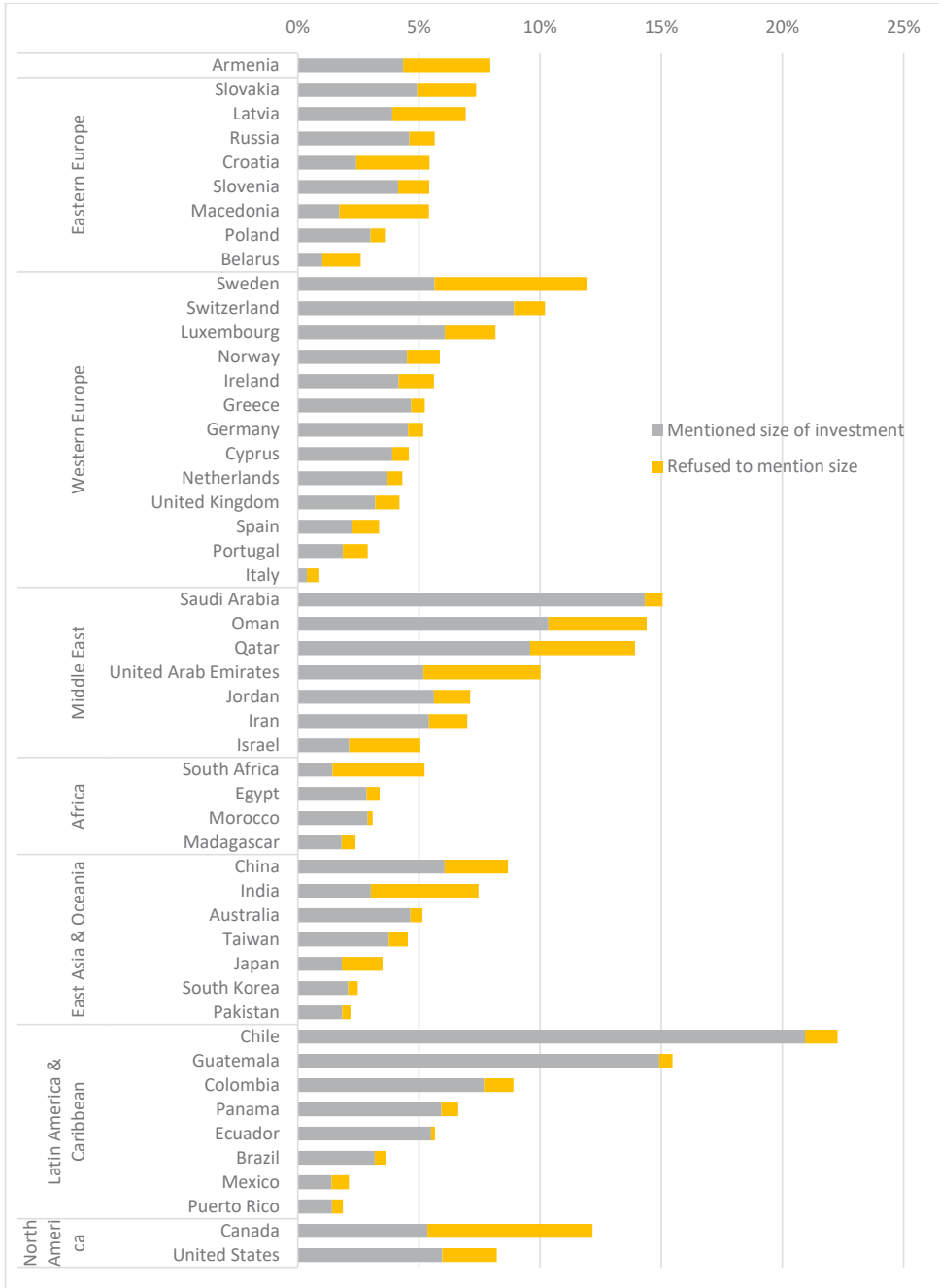
4.5 The structure of TEA by 0%, 1-25%, 25-75% and 75-100% of annual sales revenues will come from customers living outside the country (% of TEA)





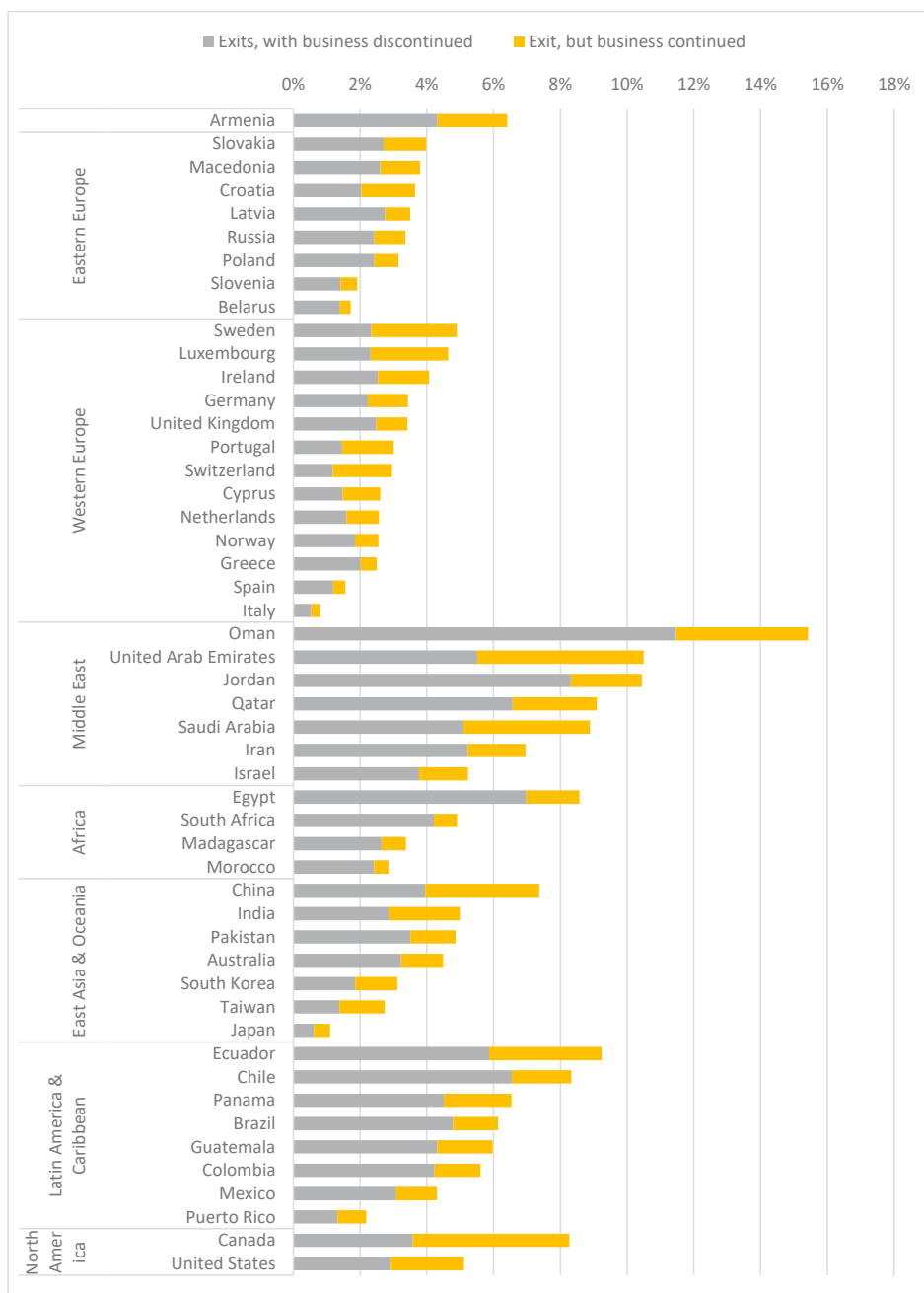
# ANNEX 5. Informal Investment

## 5.1 Level of Informal Investment (% of adults)

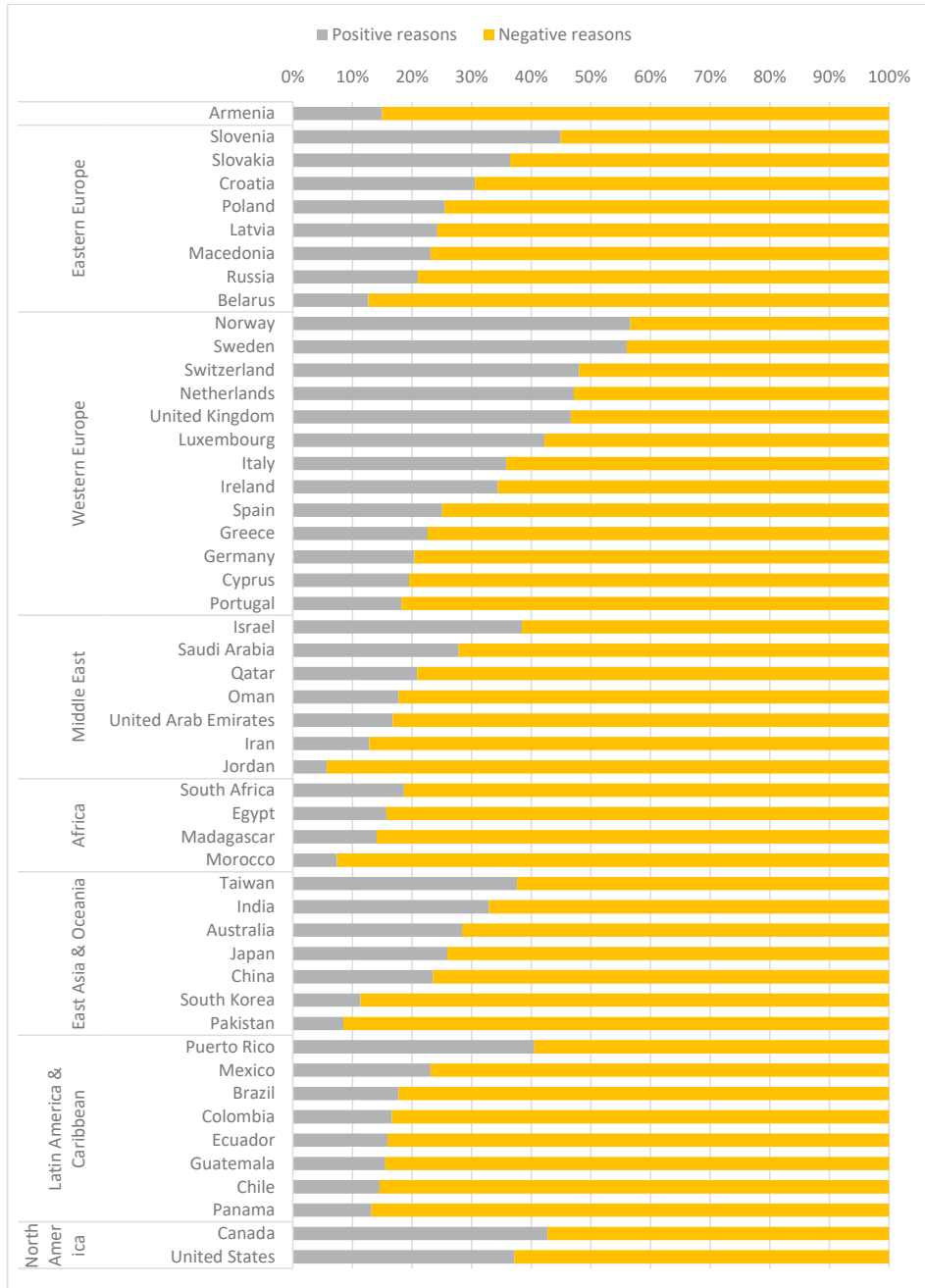


## ANNEX 6. Business exits

### 6.1 Business exit rates 2019 (% of adults)



## 6.2 Business exit reason type (% in all business exits)



## ANNEX 7. 2019 GEM NES: Armenia experts' assessment (0-10 score level) vs GEM average

		Armenia's rank (among 54)	Armenia score	GEM score (average for 54)	Score difference (Armenia vs GEM)
<b>Topic A: Finance In Armenia there is sufficient...</b>					
A01	equity funding available for new and growing firms.	33	4.550	4.702	-0.152
A02	debt funding available for new and growing firms.	26	4.950	4.773	0.177
A03	government subsidies available for new and growing firms.	40	3.875	4.788	-0.913
A04	funding available from informal investors (family, friends and colleagues) who are private individuals (other than founders) for new and growing firms.	33	4.725	5.078	-0.353
A05	professional Business Angels funding available for new and growing firms	46	3.375	4.476	-1.101
A06	venture capitalist funding available for new and growing firms.	46	3.225	4.461	-1.236
A07	funding available through initial public offerings (IPOs) for new and growing firms.	47	1.700	3.533	-1.833
A08	private lenders' funding (crowdfunding) available for new and growing firms	35	3.725	4.211	-0.486
<b>Topic B: Government policies In Armenia ...</b>					
B01	Government policies (e.g., public procurement) consistently favor new firms.	18	4.025	3.618	0.407
B02	The support for new and growing firms is a high priority for policy at the national government level.	21	5.000	4.725	0.275
B03	The support for new and growing firms is a high priority for policy at the local government level.	37	3.950	4.508	-0.558
B04	New firms can get most of the required permits and licenses in about a week.	2	5.769	3.398	2.371
B05	The amount of taxes is <u>NOT</u> a burden for new and growing firms.	9	5.650	4.266	1.384
B06	Taxes and other government regulations are applied to new and growing firms in a predictable and consistent way.	22	5.026	4.556	0.469
B07	Coping with government bureaucracy, regulations, and licensing requirements is not unduly difficult for new and growing firms.	7	5.200	3.822	1.378
<b>Topic C: Governmental programs In Armenia ...</b>					
C01	A wide range of government assistance for new and growing firms can be obtained through contact with a single agency.	29	3.475	3.851	-0.376
C02	Science parks and business incubators provide effective support for new and growing firms.	41	4.550	5.228	-0.678
C03	There are an adequate number of government programs for new and growing businesses.	41	4.050	4.854	-0.804
C04	The people working for government agencies are competent and effective in supporting new and growing firms.	44	3.200	4.352	-1.152
C05	Almost anyone who needs help from a government program for a new or growing business can find what they need.	42	3.150	4.074	-0.924
C06	Government programs aimed at supporting new and growing firms are effective.	33	4.050	4.339	-0.289
<b>Topic D: Education &amp; Training In Armenia ...</b>					
D01	Teaching in primary and secondary education encourages creativity, self-sufficiency, and personal initiative.	35	2.850	3.464	-0.614
D02	Teaching in primary and secondary education provides adequate instruction in market economic principles.	38	2.692	3.183	-0.490
D03	Teaching in primary and secondary education provides adequate attention to entrepreneurship and new firm creation.	34	2.650	2.993	-0.343
D04	Colleges and universities provide good and adequate preparation for starting up and growing new firms.	44	3.500	4.379	-0.879
D05	The level of business and management education provide good and adequate preparation for starting up and growing new firms.	50	3.925	5.053	-1.128
D06	The vocational, professional, and continuing education systems provide good and adequate preparation for starting up and growing new firms.	53	3.500	4.736	-1.236



Topic E: R&D Transfer In Armenia ...					
E01	New technology, science, and other knowledge are efficiently transferred from universities and public research centers to new and growing firms.	52	2.425	4.038	-1.613
E02	New and growing firms have just as much access to new research and technology as large, established firms.	39	3.225	3.732	-0.507
E03	New and growing firms can afford the latest technology.	22	3.800	3.593	0.207
E04	There are adequate government subsidies for new and growing firms to acquire new technology.	47	2.487	3.672	-1.185
E05	The science and technology base efficiently support the creation of world-class new technology-based ventures in at least one area.	42	3.750	4.814	-1.064
E06	There is good support available for engineers and scientists to have their ideas commercialized through new and growing firms.	42	3.150	4.187	-1.037
Topic F: Commercial & services infrastructure In Armenia ...					
F01	There are enough subcontractors, suppliers, and consultants to support new and growing firms.	27	5.615	5.493	0.122
F02	New and growing firms can afford the cost of using subcontractors, suppliers, and consultants.	19	4.175	3.915	0.260
F03	It is easy for new and growing firms to get good subcontractors, suppliers, and consultants.	18	4.750	4.569	0.181
F04	It is easy for new and growing firms to get good, professional legal and accounting services.	10	6.725	5.591	1.134
F05	It is easy for new and growing firms to get good banking services (checking accounts, foreign exchange transactions, letters of credit, and the like).	2	7.700	5.548	2.152
Topic G: Market openness In Armenia ...					
G01	The markets for consumer goods and services change dramatically from year to year.	30	5.100	5.296	-0.196
G02	The markets for business-to-business goods and services change dramatically from year to year.	29	4.949	5.101	-0.153
G03	New and growing firms can easily enter new markets.	22	4.921	4.683	0.238
G04	New and growing firms can afford the cost of market entry.	24	4.180	4.122	0.057
G05	New and growing firms can enter markets without being unfairly blocked by established firms.	11	4.974	4.285	0.689
G06	The anti-trust legislation is effective and well enforced.	34	4.158	4.409	-0.251
Topic H: Physical Infrastructure In Armenia ...					
H01	The physical infrastructure (roads, utilities, communications, water disposal) provides good support for new and growing firms.	44	4.325	5.804	-1.479
H02	It is not too expensive for a new or growing firm to get good access to communications (phone, Internet, etc.).	9	7.950	6.821	1.129
H03	A new or growing firm can get good access to communications (telephone, internet, etc.) in about a week.	2	8.875	7.200	1.675
H04	New and growing firms can afford the cost of basic utilities (gas, water, electricity, sewer).	14	7.450	6.683	0.767
H05	New or growing firms can get good access to utilities (gas, water, electricity, sewer) in about a month.	33	6.641	6.843	-0.202
Topic I: Cultural and social norms In Armenia ...					
I01	The national culture is highly supportive of individual success achieved through own personal efforts.	18	6.250	5.514	0.736
I02	The national culture emphasizes self-sufficiency, autonomy, and personal initiative.	13	6.275	5.208	1.067
I03	The national culture encourages entrepreneurial risk-taking.	7	6.050	4.494	1.556
I04	The national culture encourages creativity and innovativeness.	5	6.700	5.109	1.591
I05	The national culture emphasizes the responsibility that the individual (rather than the collective) has in managing his or her own life.	13	5.897	5.087	0.810

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