

Armenia 2017



Total: 54.49

Rule of Law

Independence of the Judiciary : 4.59

Judiciary in Armenia is not independent from the executive branch of power or other outside interests. The situation has not improved for an entire decade. Constitutional changes as of late 2015 are slowly translating into laws and by-laws and are yet to show off. Reform of the penal system in 2016, with more alternative sanctions, electronic supervision and use of probation, is expected to ease the pressure in overcrowded and otherwise inadequate detention and penitentiary institutions. In politically sensitive human rights cases, courts have several times submitted to the government expectations. In commercial cases, courts often lack expertise, effectiveness and/or efficiency, or are bribed or politically influenced to favor one or another company.

Corruption : 3.3

After advance in 2010-2014, Armenia has worsened and fallen for the second year in a row on the Transparency International's list. Corruption Perceptions Index 2016 gave it a score 33/100 and placed it as 113 of 176 (together with Bolivia and Vietnam). According to Global Corruption Barometer 2016, 37% of the citizens named corruption as the main problem of the country, while 65% found government counter-actions inadequate. Since the bribery rate is 24%, less than the CIS average of 30%, it is clear that there is more high-level corruption than petty one. Freedom House assessed in 2017 that the establishment of the Anticorruption Council in 2015 and adoption of the anticorruption strategy 2015-2018 had "produced no tangible results". The campaign against corruption has intensified by the end of 2016, by sacking a number of high ranking politicians or army officers, after CSOs exposed high level corruption in army procurement, which was undermining both the country's military objectives and the humanitarian situation in the disputed, Armenia-held region of Nagorno-Karabakh. The business portal GAN evaluated that business planning and operation in Armenia posed a high corruption risk, especially because of close relationship between oligarchs, political and business circles. While this risk with land authorities and public services was "moderate", it was high with judiciary, police, customs and taxing administration, as well as in public procurement.

Protection of Human Rights : 5.79

Since 2015, freedom of public gatherings has been gradually limited. Vicious circle of arrests because of restrictive legislation, violent opposition street actions against arrests and police brutality in reestablishing law and order has made July 2016 unusually hot in political terms. In the aftermath, several police officers were suspended and majority of detained protesters released, yet there remained a warning that political system, media and civil society have not enabled proper procedures for peaceful resolution of social conflicts. Throughout 2016 and 2017, fierce debate was also held over the draft law against domestic violence. 60% of women in Armenia have suffered from it sometime during their lifetime. It directly took 50 lives during the past five years. Yet, there were conservative voices (inspired by the similar debate in Russia) who opposed the law as an “anti-family” one. Surprisingly or not, Armenian Apostolic Church supported government proposals. The law is expected to be carried and in effect during autumn 2017. A rare exception to the rule of almost total neglect of the issues of anti-discrimination protection and equal rights of LGBT persons was a decision by the Ministry of Justice on 3 July 2017 that any marriage (including same-sex) legally concluded abroad is valid in Armenia.

Economic Freedom

Security of Property Rights : 5.84

Property rights in Armenia are not sufficiently well protected. Courts are completely dependent from strong outside groups that can have influence over their rulings, and corruption within the judiciary is still present. There are no specialized commercial courts, so all cases are discussed in front of general courts; in some cases courts do not possess specialized knowledge that is required. Adjournment regulation does not stipulate their maximum number and time standards are not reasonably upheld, so slow court procedures lead to property rights uncertainty. Besides, out-of-court settlement mechanisms such as mediation or arbitration are not well established. Recent changes that provided financial incentives for mediation mechanism and established mediation framework are expected to lower the number of new court cases. Insolvency procedures are long, and lead to low recovery rates of just over one third of the requested sum. Registration of property is easy, inexpensive and can be done in just a week, while majority of the land has a clear title. A new law stipulating that court cases should be assigned to judges randomly is in implementation, leading to a higher level of accountability in court management. Foreign nationals cannot own land, unless they acquire a residence permit, but they can lease it freely. There are no specialized commercial courts, and all commercial cases are resolved in general jurisdictions courts. Unpredictability in verdicts, which can vary from court to court in similar cases, is another problem.

Size of Government: Expenditures, Taxes, and Enterprises : 8.27

Government expenditures in Armenia are low as compared to other European countries, even those from the CIS region, reaching 27% of GDP in 2016. Economic growth reached a standstill due to falling prices of copper, Armenian number one commodity export and falling remittances, but it is expected to rebound strongly in 2017. Public deficit in 2016 reached as high as 5.6% of

GDP and public debt peaked at 52% of GDP, having grown for almost two thirds in just two years. The IMF backed fiscal consolidation program is being implemented, but most efforts are being made by lowering capital expenses, which may not be the best strategy in a country with undeveloped infrastructure. A sustainable fiscal consolidation is necessary to comply with the existing fiscal rules that are now binding policy solutions. Overall low government consumption has led to low level of taxation: VAT and corporate profit tax rates are set at 20%. Income tax is progressive, with rather high rates of 24.4%, 26% and 36% above the set threshold. The privatization process has limited the scope and influence of the government in the economy, but state-owned enterprises are still active in specific areas, mostly in utilities, infrastructure and energy. These companies do not operate efficiently, and pose a significant fiscal risk to the government, especially those in the energy sector. High dollarization of the financial system remains an obstacle to a more effective monetary policy, due to the hyperinflation background of the national currency. The new, recently introduced tax code is expected to increase public revenues through elimination of different exemptions but also to shift tax sources from direct to indirect taxes. The new tax code discriminates between Armenian and foreign nationals regarding the dividend tax rate (being 5% or 10%).

Regulation of Credit, Labour, and Business : 7.36

Regulation in the country is mostly business friendly. However, major areas of Armenian economy are controlled by business people who are well politically connected, enjoying government protected market position, accruing high rents through restriction of new business entrants. Accusations of unfair tender procedures are still rampant, and government institutions can give preferential treatment to certain companies that are owned by people that have good political connections, and the level of corruption in the country is high. On the other hand, starting a business is easy and cheap, and there is no requirement for minimum paid-in capital, and obtaining a construction permit although burdened with as much as 18 different procedures is also efficient. This process was eased through exemption of lower-risk projects from the need of having approval of architectural drawing by an independent expert. Connecting to electricity grid is a lengthy procedure incurring high costs, mostly due to inefficiencies within the company of Electrical Networks of Armenia. Although there are not many annual tax payments, compliance with tax procedures involves lengthy and complicated procedures. Corruption, government bureaucracy and access to finance are among the major impediments to a better business environment. Labour regulation is mostly flexible, although fixed term contracts are prohibited for permanent tasks, their length is not restricted and the total number of working days is set at 6. There are retraining and reassignment obligations in case of redundant workers, and although the length of notice periods and the level of severance pay increase with the years in tenure, they incur little costs. However, almost half of the working force works without contracts, or in the informal economy. Centralized collective bargaining is mostly focused to public sector, while trade unions are closely connected to the government. Long mandatory military service proves to be burdensome for individuals and private enterprises alike.

Freedom to Trade Internationally : 8.02

Freedom of trade in Armenia is generally respected. Overall, tariffs are not too high, with the Most Favoured Nation (MFN) average standing at 6.2% – however, tariff rates are more pronounced in the field of agriculture products. Non-trade barriers, especially the phytosanitary standards, still pose an obstacle to free trade. Some improvements have been made in the work of customs office and the use of reference prices during custom clearance was reduced, but custom procedures remain non transparent and corruption is still an issue. Documentary compliance costs for both

export and import are unnecessarily elevated. Armenia has been a member of the World Trade Organization (WTO) since 2003. In 2015 it joined the Eurasian Economic Union (EEU), which led to changes in Armenian trade policy in order to reflect the one of its other members (Russia, Kazakhstan, Belarus and Kyrgyzstan), but it granted Armenian goods easier access to EEU markets and vice versa. Besides, Armenian guest workers are facing a preferential treatment in other EEU countries. However, this also entailed changes in trade policy, by increases in tariff rates and new regulatory requirements for imported goods. Main problems facing Armenian involvement to foreign markets are geographical and political: the mountainous terrain provides only a limited number of routes suitable for transportation of goods, and most of them are closed because of the political confrontation with Azerbaijan and Turkey, while open borders to Iran and Georgia lack good infrastructure, which significantly burdens international trade, imposing high freight costs.

Political Freedom

Free and Fair Elections : 4.29

Electoral process in Armenia provides only certain level of freedom and fairness for political parties, since in practice ruling politicians led by President Serzh Sargsyan use various methods to deal with the opposition and use their leverages to make the playing field uneven. Country faced a tough year due to escalation of conflict with Azerbaijan and hostage situation, followed by mass protests and violence, which led the President to dismiss the Government, appointing Karen Karapetyan as new Prime Minister. Since constitutional reforms had been adopted, changing country from semi-presidential to parliamentary republic by the end of president mandate in 2018, first parliamentary elections under new electoral system, also adopted in reform package, were set for 2nd of April 2017. The result of the complex party list proportional representation process was that the ruling Republican Party of Armenia won 58 out of 101 seats, ensuring it to build a stable majority government together with the Armenian Revolutionary Federation. Although some improvements in electoral fairness, such as new technologies for monitoring the voting process, have been introduced, the entire process was marred by biased media reporting in favor of government, voter intimidation and vote buying, among other issues.

G••;

Absence of Unconstitutional Veto Players : 3.33

Weak system of checks and balances, together with a new electoral procedure which “helps” a dominant party to ensure a single-party stable majority in the parliament, places real power in the country into the hands of politicians. On one side it allows them to govern without interference, while on the other it undermines democracy and rule of law, which was often done in practice. Significant political influence in Armenia is exercised by wealthy businessmen, war veterans and Armenian Apostolic Church, but they are rather close allies of the ruling political elite than challenging forces. The country faced two security challenges throughout 2016. Conflict with Azerbaijan in Nagorno-Karabakh territory escalated in April, while in July a group of radical veterans captured a police station in Yerevan with hostages inside, demanding resignation of the President and release from prison of Jirayr Sefilian, an opposition politician. The situation led to huge protests of people discontent with the current regime.

al f•••

Freedom of Press : 3.7

Freedom of the press is granted by the Armenian constitution, but this right is not upheld in practice. Media landscape is plural, however lacking diversity and independent reporting, since most of the outlets are expressing views in favor of the ruling elites. Strong political pressure was mostly imposed through close connections to media owners, or by using financial and legislative instruments to influence editorial policy. Online content breathe certain level of diversity, however traditional media are still primary source of information for Armenian citizens. Violence against journalists escalated during the protests in July 2016, when police abused its authorities and physically attacked and arrested some of them while covering the events. In such environment journalists often practice self-censorship, especially on some government-sensitive topics. Ownership of the media outlets has remained clouded.

le di●●●