

FOUNDATION FOR SMALL AND MEDIUM BUSINESSES

**Combating Corruption:
SME Sector Perception and Solutions**

YEREVAN 2006



The publication presents the analysis, conclusions and recommendations based on the results of SME sector survey conducted by the Foundation for Small and Medium Businesses (FSMB) within the framework of the project “Promoting Islands of Integrity: Measuring and Encouraging the Ability of Armenian SMEs to Resist Corruption” funded through a US Department of State Affairs Section grant, and the opinions, findings and conclusions or recommendations expressed herein are those of the Authors and do not reflect those of the Department of State.

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According to The Evaluation Report on Armenia published by GRECO, the Council of Europe Group of States against Corruption on March 2006 corruption remains a major problem in Armenia despite the adoption of a number of anti-corruption measures. It says particularly that Armenia's judiciary, customs service, tax inspectorate, licensing and privatizations are affected by corruption.

The report describes two different dimensions of corruption in Armenia: high level corruption through abuse of political or public authority; and administrative corruption typically practiced by middle and lower-level public officials in their dealings with members of the public.

This publication considers the manifestations of administrative corruption in the sphere of small and medium entrepreneurship.

There is nothing more important in our current work than the fighting corruption. It is a disease that permeates societies around the world and is at the core of the problems of social inequality and poverty.

James Wolfensohn
World Bank Ex-President

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P R E F A C E

Corruption is increasingly becoming one of the most critical problems for public and private sectors all over the world. It is still rampant in 70 countries out of the 159 nations surveyed in Transparency International's 2005 Corruption Perceptions Index (CPI), which were scored less than 5 out of a clean score of 10. Armenia was placed by the 2005 CPI among countries with a score even less than 3.0 (2.9 vs. 3.1 in 2004), which refers to a very serious level of corruption.

According to the 2005 EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS), a number of the surveyed firms indicating corruption as a problem for doing business in Armenia has increased compared to 2002. A bribe share of the annual sales has also increased. Unofficial payments are mostly paid to deal with taxes and tax collection, customs/imports and courts, as well as to obtain licenses/permits and government contracts, and to influence the context of new legislation/rules/decrees. Remarkably, Armenia has passed ahead of other CIS and CEE countries in pointing to corruption in customs, courts and the lawmaking process.

Today, the private sector realizes the risks of corruption, which distorts fair competition and hampers development of a free market. Though corruption damages all types of business companies, yet it mostly affects the small and medium firms. This publication presents the analysis and recommendations of the Foundation for Small and Medium Businesses (FSMB) made within the framework of the project entitled "Promoting Islands of Integrity: Measuring and Encouraging the Ability of Armenian SMEs to Resist Corruption" funded by the Democracy Commission Small Grants Program of the US Embassy in Armenia.

The results of the survey conducted by FSMB among representatives of 104 small and medium-sized businesses demonstrated that corruption is seen as one of the major obstacles for SME development in Armenia, and that almost a half of respondents personally faced corruption in various forms. In opinion of the interviewed SME representatives, most corrupt institutions are inspectorates and local government bodies, whereas imperfect regulations/legislation, discouraging taxation, inadequate credit and banking system, as well as the lack of transparency within the public sector, red type bureaucracy and ineffective judiciary are the main obstacles for the development of the sector.

Respectively, respondents suggested coping with abovementioned difficulties through administrative and law enforcement measures to ensure better access to information, more transparent, accountable and ethical behavior of public officials, more effective control and punishment mechanisms, better reporting system on corruption cases, etc. Meanwhile, the project team also proposed certain measures for a more active engagement of businesses in “breaking the corruption cycle”. These are: a) creation of a special association or NGO to collect and record information about corruption cases among SMEs; b) documentation of most common types of corruption practice; c) regular publication of the gathered information; d) lobbying for revision or implementation of relevant legislation; e) promotion of a corporate culture of transparency; f) implementation of regular social audits; g) raising awareness on corruption-related issues; etc.

Publication and dissemination of the project findings and recommendations is one of the first steps to address corruption problems related to the SME sector in Armenia. More in-dept research and analysis, wider awareness, advocacy and lobbying campaigns are needed to move forward in changing the existing perceptions and behavioral patterns, along with improvement of relevant legal framework and institutional arrangements.

Above all, combating corruption in Armenia is conditioned by actual will, joint efforts and accorded actions of authorities, businesses, civil society, media, international actors, etc.

Amalia Kostanyan
Chairwoman
Center for Regional Development/
Transparency International Armenia

EXECUTIVE SUMMARY

Seventy years of socialist past in our country resulted in substantial damage to the value systems upon which civil society must be built. After September 1991 the process of economic transformation began to be rapidly implemented into the environment of this debased value system. This process resulted in negative influence on the transparency in the economic system.

The “Promoting Islands of Integrity: Measuring and Encouraging the Ability of Armenian SMEs to Resist Corruption” was conceived as an 5-month project of the US Embassy in Armenia Small Grants Program. The goals of the project were:

- to gain understanding of the main corruption related problems faced by SMEs in Armenia,
- to determine what if any strategies were being employed by these businesses to avoid corruption,
- to launch an open discussion among SMEs in Armenia about how to manage corruption-related pressures on their business,
- to outline potential measures that can be taken to reduce corruption in the business community in Armenia, with particular reference to SMEs.

The project began with a questionnaire that was circulated among SMEs in different regions of Armenia. The purpose of this questionnaire was not to get a complete picture of the corruption issues faced by small businesses. Rather it was to initiate a discussion on the corruption issue, and to determine what strategies are being used to avoid corruption.

One of the main results of the project was the creation of a set of case studies, based on actual experiences of responded one hundred four Armenian companies. These case studies are presented as discussion material for small business development agencies that want to help their clients initiate public discussion about the problems they face.

It is clear that most Armenia SMEs deal with corruption in some form. And that corruption represents for them a cost in finance, time and lost opportunity.

However, contrary to initial assumptions, no strong strategies emerged that are being used by Armenian SMEs to deal with corruption. Most feel

themselves to be reluctant victims, hoping that the macro environment will change and enable some relief. Additionally, research revealed no substantial anti-corruption programs that had micro-enterprise or SMEs as a focus. Anti-corruption programs tend to focus instead on the public sector or large-scale enterprise.

Finally, based on the research and discussion groups with SME owners, some possible proactive approaches are outlined that could help break the corruption cycle among Armenian SMEs. These are:

- The creation of functional professional associations, with standards and lobbying capacity.
- The creation of capacity to provide assistance for SMEs in developing an ethical codex.
- The creation of capacity to carry out systematic and professional social audits of companies.
- The creation of a regular competition and a prize for ethical business.

This project should be seen as the introduction to the issue, and the beginning of what is hoped will be a continuing public discussion about the problems faced by small business owners in Armenia.

INTRODUCTION

Until relatively recently, the problem of corruption was not taken seriously in CIS countries. Often it was seen as a minor irritant, or else as simply the cost of doing business in the transition economies of the former communist countries.

However, recent researches (by the World Bank and others) have demonstrated clearly that corruption slows down the economic development of countries, disables social services, retards the establishment of civil society and disables business competitiveness. Additionally, the corruption scandals in many of the countries of the region have alerted the global finance and development communities to the seriousness of the problem.

Such problems are: requests for bribes by public officials for licenses, kick-backs on contracts, extortion by organized crime, tax evasion, non-payment by large companies favored by the government, and uneven treatment by tax officials, etc. In The 2005 Transparency International Corruption

Perceptions Index Armenia ranked 88 in the world. It is quite good as compared with neighboring countries, Iran (88), Russia (126), Georgia (130), Azerbaijan (137), except Turkey (65).

Additionally, there is strong evidence that corruption puts disproportionate pressure on small businesses, compared with larger companies. Some estimates place the corruption cost on Armenian companies in some industries as high as 10% of annual revenues. This is enough to make a life or death difference for a company struggling to survive.

However, it is our experience and belief that the majority of Armenian SME owners do not want to engage in corrupt practice. They find it costly and inefficient, as well as risky. Plus, they are learning that there is a direct link between tax avoidance and the poor social services they and their families experience. But it is also our experience that these entrepreneurs lack information and support in avoiding corruption. They become resigned to corrupt practices as a necessary cost of doing business.

We believe that there exists, nonetheless, within the Armenian small business community experience and motivation to find ways to avoid corruption, which this project set out to discover and publicize.

With support from US Embassy in Armenia Small Grants Program Foundation for Small and Medium Businesses led an 5-month project designed to find ways to support Armenian SMEs to cope with corruption. The aim of the project is to promote ethical practice in business in Armenia and thus assist the business community contribution to the development of civil society. The strategy is to discover and help Armenian SMEs learn strategies of coping with corruption. In this way they can gain confidence, experience and models that they can use to oppose corrupt business practice in their immediate stakeholder circle.

We know that without the proper legislative and judicial framework, small business owners remain helpless in the face of corruption. But, for a society to engage seriously in the process of cleansing itself from corruption, both bottom up and top down approaches are necessary. This project is a bottom up contribution to this process.

To perform survey the special questionnaire has been created. It contained 19 questions, which can be divided into the following spheres:

- Personal attitudes toward corruption..
- Situations businesspeople find themselves in.

- Solutions and exit strategies from the problem.

The results of this survey are clearly not statistically significant from an Armenia wide perspective, particularly due to the sample size. Regardless, the authors believe that the opinions of such a limited group have illustrative value and provide an accurate picture of some of the corruption-related problems faced by small businesses in Armenia.

The survey has been accompanied by discussions in Yerevan and Shirak, Lori, Vayots Dzor, Kotayk and Gegharqunik marzes. The discussions focused on the cases and various strategies that can be employed to deal with problems. On the basis of these discussions we created an analysis of potential proactive approaches that can be used to deal with a range of corruption issues.

I. GOALS, TASKS AND GENERAL HIGHLIGHTS OF THE SURVEY

As it is stated by John D. Sullivan in “Anti-Corruption Initiatives from a Business View Point” (Center for International Private Enterprise, USA, <http://www.cipe.org/programs/corruption/initiatives.htm>) corruption occurs in a variety of ways. While there is general agreement that corruption is the abuse of public office for private gain, there are still many areas where peoples in different countries have different feelings about what is and isn't a corrupt practice. For example, most would agree that bribing a civil servant is corruption. However, hiring relatives (nepotism), giving contracts to supporters (cronyism), abusing privileged information to buy or sell stock (insider trading), and other such practices are viewed differently around the world.

One of the major breeding grounds for corruption can be found in the area of governmental applications of laws and regulations including, but not limited to, labor law, tax rules, customs and currency regulations, and health and safety laws.

With the purposes:

- to reveal the nature and causes for corruption practices among the small and medium businesses,
- to realize the role of small and medium business in the fight against corruption and stimulate their interest to implement anti-corruption measures,

- to provoke their intolerance against corruption practices,
- to activate the readiness of small and medium business community to uncover corruption practices at local and national levels,
- to develop partnerships among different business associations and organizations, NGOs, governmental and municipal institutions,
- to assist and deepen the public discussion about corruption practices and their specifics both in relation to the small and medium business,

a survey amongst representatives of 104 small and medium-sized businesses was conducted.

The FSMB team carried out the fieldwork during the period July 1 – October 31, 2005 in Yerevan and in Shirak, Lori, Vayots Dzor, Kotayk and Gegharqunik marzes:

1. To outline the most serious administrative, institutional and corruption-related problems impeding the development of private business sector in Armenia;
2. To identify corruption in small and medium-sized businesses, its forms, manifestations and the extent to which it is spread;
3. To define and determine from a political and legal point of view the most efficient strategies to fight corruption, as well as to identify the successful approaches in this respect coming from the private sector.

The current paper aims to analyze and summarize the main survey results.

The general research highlights are

1. PERCEPTION ABOUT THE PROBLEM OF CORRUPTION

- Bribery & corruption in the public and private sector are one of the major obstacles for SME development in the country.
- 49% of surveyed SMEs declared that they faced corruption related problems personally, as victims or as witnesses

2. FACES OF CORRUPTION

- Most used types of bribes: Money, personal relationships and non-monetary gifts

- Institutions declared as “most corrupt”: Inspectorates and local governments
- Frequency of bribe-requests: generally, in 50-100% of cases

3. COSTS OF CORRUPTION

- Bribes are paid mainly related to public tenders and credits
- Credits: 10–15% of total credit amount
- Distrust: 78% of surveyed SMEs distrust the judicial system. Main reasons: ambiguity of laws & their arbitrary application
- Lack of transparency: related to procedures of public services and behavior of public officials. High majority of surveyed SMEs do not know minimum behavior rules for public officials, general decision-making criteria of public officials, who is actually punished by the law in the country

II. MAJOR OBSTACLES, WHICH IMPEDE THE DEVELOPMENT OF PRIVATE BUSINESS

According to the businesspeople interviewed, the major problems, which impede the development of Armenian business fall into two categories. Global legislative, administrative and financial difficulties come first. The next level covers problems related to the daily management of the business entities (Table1).

The first group includes problems such as tax liabilities and all ensuing disorders, difficulties and obstacles, problems connected with the financial and banking system in the country, as well as such that pertain to the participation and role of the state in the economic processes.

The second group of problems covers matters that relate to the spread of corruption, to administrative procedures and bureaucratic obstacles. The list here may be expanded to include problems relating to the implementation and interpretation of the laws.

The first group includes problems such as SME regulating legislation in general, tax liabilities and all ensuing disorders, difficulties and obstacles, problems connected with the financial and banking system in the country, as well as such that pertain to the participation and role of the state in the economic processes. This group of problems covers also matters that relate to the spread of corruption and administrative procedures.

The second group of problems covers matters that relate to the judicial and bureaucratic obstacles. The list here may be expanded to include problems relating to the implementation and interpretation of the laws.

TABLE 1. MAJOR PROBLEMS IMPEDING DEVELOPMENT OF PRIVATE BUSINESS IN ARMENIA

	%	Rank
Inconsistency of SME regulating legislation	91.3	1
Intricating and demotivating taxation system and tax collection procedure	90,4	1
Corruption and bribery in the public sector	90,4	1
High credit interest rate	89.4	1
Complicated and time-consuming procedures to obtain permits and licenses	89.4	1
Ownership rights are not guaranteed	84.6	2
Insufficient state incentives for SMEs	83.6	2
Difficult access to credit facilities	81.7	2
Unpredictable judicial system (ambiguity of laws, problematic enforcement, etc.)	78.8	2
Corruption and bribery between businesses (large enterprise-supplier- purchaser- client)	77.9	2
Complex rules and administrative procedures to establish an enterprise	71.7	2

*The percents exceed 100 because the respondents' more than one answer.

In response to “What is the greatest problem in doing business?”, most respondents have put in the first place “Inconsistency of SME regulating legislation” (91.3%). “Intricating and demotivating taxation system and tax collection procedure” and “Corruption and bribery in the public sector” are in the second place (90.4%). Survey data show that corruption comes amongst all other first rank problems on macro level.

So, the survey results obtained make it possible to draw the following conclusions: SME managers and executives find that corruption among public-sector officials in the government administration has a huge negative impact and is directly interconnected with existing legislation.

III. CORRUPTION PRACTICES IN SMEs

1. SPREAD OF CORRUPTION IN ADMINISTRATIVE SERVICES

The survey data may be used to identify the spread of corruption depending on the basic types of administrative services.

TABLE 2. CASES IN WHICH IT IS REQUIRED UNOFFICIAL PAYMENT

	Always(%)	Often(%)	Sometimes(%)	Newer(%)
Registration of ownership rights	33.6	20.2	20.2	13.5
Obtaining a building permission	31.7	32.0	17.3	9.6
Getting customs clearance	30.8	32.7	20.2	8.7
Winning public procurement contracts	29.8	33.6	10.6	11.5
Obtaining credit	26.9	23.1	19.2	22.1
Getting tax penalty provisions reduction	23.1	36.5	18.3	9.6
Getting electricity, water, telephone line installed	21.1	27.9	29.8	8.6
Speeding up juridical process on the court	20.2	27.9	18.3	19.2
Obtaining community permits	17.3	29.8	35.6	6.7
Registration of a enterprise	11.5	24.0	37.5	15.4
Other services:				
Fire fighting service	97.1	2.9		
Sanitation service	97.1	2.9		

Survey results reveal the spread of corruption in various types of administrative services and allow us to make several conclusions:

- Registration of ownership rights is first amongst the services where corruption occurs most frequently. 33.6% of all respondents think that in all cases when they come to register ownership right they have to make unofficial payments.
- The corruption-related practice may also be expanded to include the obtaining of building permissions, where giving unofficial payments is

rated as a frequently occurring phenomenon, although its spread is slightly lower than that of the first on the list (31.7%).

- Activity connected with goods import and export is the third amongst the services where corruption occurs most frequently. One out of every three of all respondents (30.8%) thinks that in all cases when he comes to paying customs duties he has to give unofficial payments.
- Obtaining a public procurement contract is next on the list. About one third (29.8) of all respondents thinks that in all cases when it comes to public procurement contracts, regardless of its type or size, businesspeople have to make unofficial payments in order to make sure they will be awarded these contracts.
- Practically same is the situation with obtaining credits. 26.9% of respondents are sure that they have to make unofficial payments in order to make sure they will obtain the credit they applied.
- Getting tax penalty provisions reduction is the next on the list. 36.5% of respondents often were forced to pay bribes to avoid or reduce tax penalty provisions.
- At the bottom of this classification are public services, such as acquiring a telephone line, connection to the power and water supply systems (21.1%) and obtaining community permits (17.3%).
- Relatively low is the share of respondents (20.2) who think that the speeding up juridical process on the court requires unofficial payments without fail.
- The last one on the list is the legal registration of enterprise. Only 11.5% of respondents had to pay unofficial payment to register the enterprise. Obviously it is a consequence of procedure simplification.
- But the most confusing are the data on Fire Fighting and Sanitation services. The absolute majority of respondents (97%) think that the unofficial payments to these services are unavoidable.

The kinds of corruption-related practices may vary as they depend on the diversity of services rendered. Besides material gains, such as money, gifts or services, they may include a number of additional activities, which are connected in one way or another with abuse of power. Most of the interviewees point out that giving money is the most frequently occurring type of bribery.

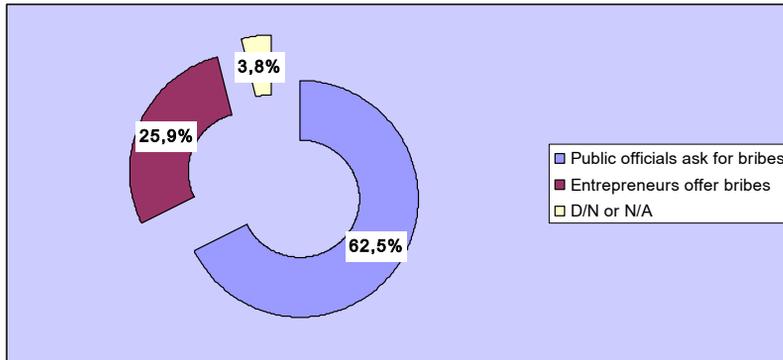
2. PARAMETERS OF THE CORRUPTION PRACTICES

It is obvious that the spread of corruption is determined by its practical efficiency. The faster and the easier it is to overcome administrative obstacles and restrictions by giving unofficial payments, offering services and/or gifts, the more people will become involved in such activities, as this saves time, nerves and resources. Two equally interested parties, therefore, carry out the act of corruption.

53% of respondents is of the opinion that the process of concluding various types of deals, obtaining public procurement contracts, holding tenders, etc, are in most cases based on bribes, whereas only 8.6% of respondents think that the share of corruption-related deals is negligibly small.

The Figure 1 shows the opinion of respondents about initiators of corruption-related deals.

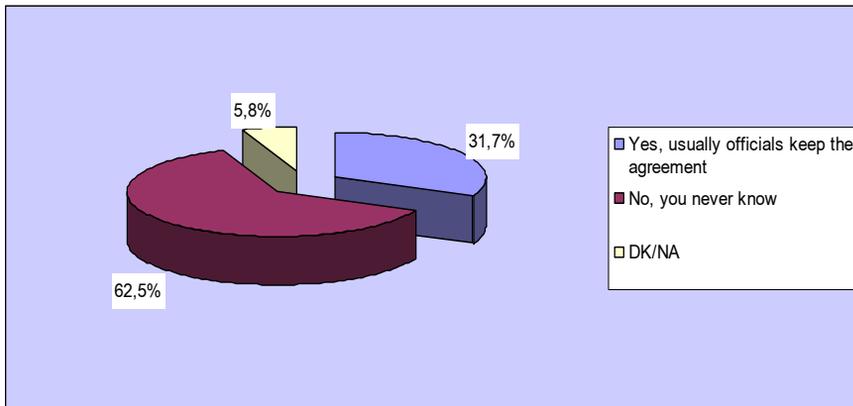
FIGURE 1. INITIATORS OF CORRUPTION-RELATED DEALS (%)



It is noteworthy, that approximately every fourth respondent nominates entrepreneur as the initiator of corruption-related deals. Thus similar disposition may be interpreted as an indicator of a firmly established practice in the relations between businesspeople and public-sector officials.

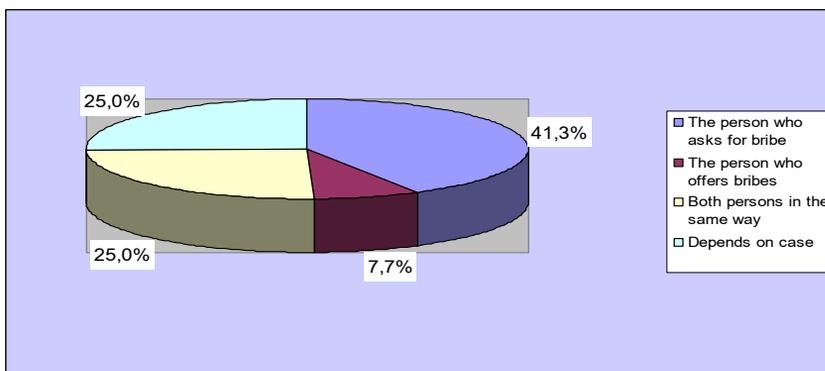
At the same time, paying a bribe does not always necessarily mean that a given deal will be effected. The vast majority of interviewed entrepreneurs (62.5%) do not express a firm belief concerning the strict observance of corruption-related deals (Figure 2). 13.5% of respondents had personal experience when they have paid money but the official did not keep the agreement they had and 30% of respondents didn't want to answer.

FIGURE 2. KEEPING NEGOTIATED TERMS AND CONDITIONS IN CORRUPTION-RELATED DEALS



The law provides for criminal liability of one to five years for persons giving bribes and officials taking bribes. The opinion of most entrepreneur interviewees coincides to a large extent with the provisions of the existing legal framework. 25.0% of the respondents think that both parties to the bribe-giving and bribe-taking processes in corruption-related deals should be liable to punishment. 41.3% think that the person who asks for bribe and only 7.7% think that the person who offers bribes should be punished. 25% of respondents think that the party should be subject to punishment depends on specific case.

FIGURE 3 EVALUATION OF WHO SHOULD BE PUNISHED IN CORRUPTION-RELATED CASES.



No one of the business people are convinced that neither persons who offer bribes, nor those who ask for bribes are punished.

IV. GENERAL CONDITIONS FOR THE SPREAD OF CORRUPTION

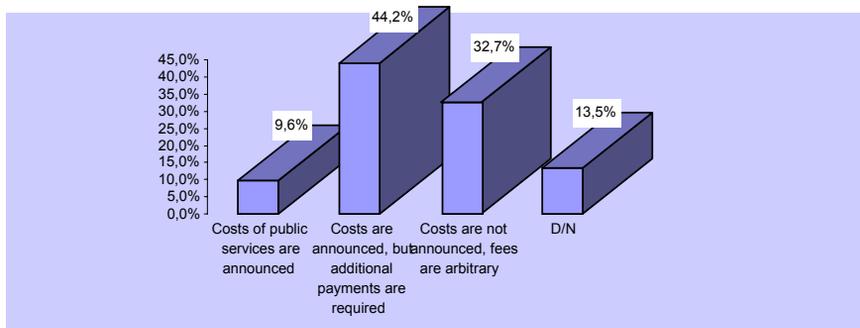
1. AWARENESS ABOUT THE CRITERIA AND RULES GOVERNING ADMINISTRATIVE PROCEDURES AND PUBLIC PROCUREMENT

Publicity is one of the primary factors that may narrow down the spread of corruption in the public sphere. The more transparent the activities of the responsible institutions are and the greater public awareness there is about these activities, the greater the chance is of public control over these institutions, which in turn will inevitably result in keeping corruption within bounds.

The data of the current survey unambiguously reveal the extremely low level of awareness that SME managers have about the activities of the public administration (Figure 4, 5). A considerable part of them find that administrative operations are conducted in non-transparent way. This fact in itself is an argument good enough to create low level of trust in the institutions and give rise to doubts about corruption.

Nearly third of all businesspeople interviewed (28.8%) find that the institutions do not set up official rules and criteria of decision-making in the various administrative procedures and regulations and that officials are not subjected to any anti-corruption control. Another fairly large group (38.4%) of respondents is somewhat aware of such criteria, but the information is incomplete, and 5.8% do not know where or how to find this information. In contrast the practice of making unofficial payments is manifested quite openly, thus the official rules and criteria of decision making are not applied (Figure 4).

FIGURE 4. AWARENESS ON OFFICIALLY STATED RULES FOR PUBLIC INSTITUTIONS

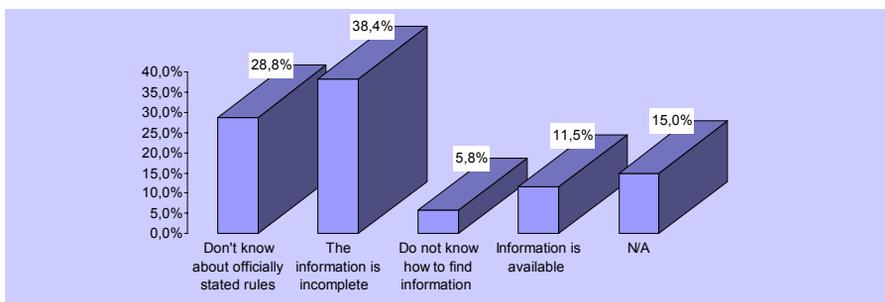


According to the businesspeople taking part in the survey, a rather low level of control, breach of and evasion of legally stipulated rules for the purpose of deriving personal benefit characterize the system of public services (Figure 5).

A large group of entrepreneurs (44.2%) are of the opinion that besides the officially announced duties and charges, the parties concerned are compelled to pay a number of unofficial charges throughout their communication with the institutions. At the same time, 32.7% think that official payments are not made known in advance and in a number of cases are quite arbitrary.

One third of the respondents are sure and 39.4% suppose that every institution should dispose of clearly defined and transparent rules and regulations to counteract corruption. Unfortunately, even in cases when such regulations do exist, they are not observed. The reason for this is the lack of control, the failure to impose sanctions, etc.

FIGURE 5. AWARENESS ABOUT THE COST OF PUBLIC SERVICES

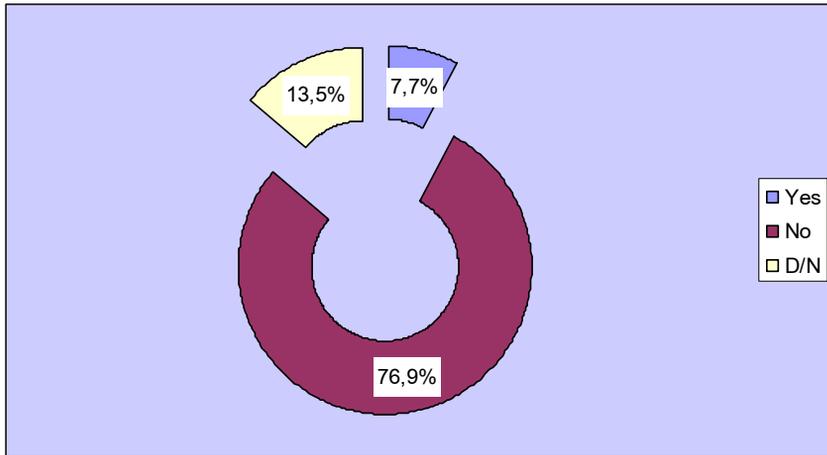


For our respondents it is common the conviction that corruption has turned into a social regulator, which results directly from the low level of transparency in the administration's activities.

2. TRUST IN THE JUDICIAL SYSTEM

The judicial system is the institution that should fight all manifestations of corruption. The survey results, however, register the extremely low level of trust in its activities (Figure 6).

FIGURE 6. TRUST IN THE JUDICIAL SYSTEM



The reason for this low level of evaluation, in the opinion of the majority of respondents, is to be sought in the low efficiency and cumbersome methods of the institutions falling within the judicial system:

- 83.6% of the interviewed business people have no trust in the judicial system because of the ambiguity, bias and poor practical provisions of the legal frame regulating. They think that laws and policies that govern business activity are ambiguous and applications of laws are arbitrary.
- 32.7% of the respondents are of the opinion that when there is breach of the law, the authorities responsible for control either do not intervene at all or are inefficient. The same is true of the penal system.
- The opinion of the 20.2% is that the newly passed laws regulate business, but do not, in fact, contribute much to its development.

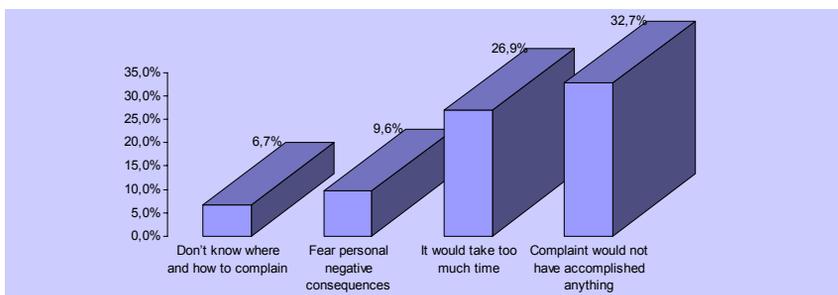
V. STRATEGIES TO FIGHT CORRUPTION

1. GOVERNMENTAL AND POLICY DECISIONS

The existence of efficient mechanisms to exercise public control over the activities of public institutions is an important prerequisite to restrict corruption in the public sector and to improve the quality of public services. The survey findings are a telling example of the lack of such mechanisms and trust to them.

Although a considerable part of the respondents (26.9%) have made a complaint against low-quality public services, most of them are dubious about the efficiency of such acts (Figure 7). Only 6,7% of the people who failed to make a complaint in such cases did not know where to lodge their complaint. The main reasons for the lack of any reaction upon receiving low-quality services is the prevalent tendency of people to think that “I will achieve nothing by making a complaint” (32.7%) or “Making a complaint will take up too much of my time and I cannot afford to waste any of it” (26.9%). The share of people who have abandoned the idea of lodging a claim because they are convinced that they are more likely to lose, as well as the share of people who are afraid such a step might have adverse consequences is relatively high (9.6%).

FIGURE 7. REASONS FOR NOT LODGING COMPLAINTS IN CASES OF LOW QUALITY SERVICES



The process of establishing and endorsing mechanisms to counteract the negative practices in the public sector (including corruption-related practices) may not be resolved through political will and government decisions alone. Changing the negative stereotype of thinking and behavior concerning the quality of public services and strict compliance with law in rendering these services will require serious efforts by the government and

the active participation of the businesspeople in order to instill clear and transparent mechanisms of public control.

According to the interviewees, in order to improve the quality of public services and reduce the level of unofficial payments, the government should concentrate its efforts primarily on facilitating and speeding up administrative procedures, ensuring comprehensive and accurate information, and providing ongoing education and training for public-sector officials. The businesspeople think their relations and contacts with officials can be improved, if transparent rules and ethical principles for the administration are developed and if an “attitude of politeness” and respect of officials towards customers is instilled (Table 3).

TABLE 3. MAJOR GOVERNMENT PRIORITIES IN CURBING UNOFFICIAL PAYMENTS AND IMPROVING THE LEVEL OF PUBLIC SERVICES (%)

	Imperative	Important	Secondary
Developing transparent rules and ethical principles for the administration	55.8	16.3	1.9
Providing complete and accurate information	52.9	23.1	1.0
Facilitating and speeding up the administrative procedures	48.1	24.0	2.9
Ongoing training and education of the officials	44.2	26.0	1.0
Identifying and declaring publicly corrupt practices and people within the government, public institutions, state-companies, and others	35.6	18.3	17.3
Establish efficient, uncorrupted bodies of control and mechanism of sanctions against corruption.	30.8	16.3	21.1
Developing and promoting ethical principles for public institutions.	25.0	38.5	8.6
Including business associations in the development process of laws which govern business activities	20.2	43.2	6.7

Here is the ordinance of government priorities according to interviewees.

- Developing transparent rules and ethical principles for the administration, providing complete and accurate information and facilitating and speeding up the administrative procedures are among the top priorities that respondents feel the government should focus its attention and efforts on, to narrow down corruption (48.1% – 55.8%).
- Next on the list of priorities come ongoing training and education of the officials, identifying and declaring publicly corrupt practices and people within the government, public institutions, state-companies, and others, establishing efficient uncorrupted bodies to control and sanction corruption-related practices and making such practices and the people involved publicly known (30.8 %– 44.2%).
- Developing and promoting ethical principles for public institutions, including business associations in the process of laws development which govern business activities are also pointed out as a possible way of coping with corruption (20.2 %– 25.0%).

2. JUDICIAL AND LEGAL DECISIONS

As it was mentioned above, the attitude towards the judicial system throughout the country is extremely unfavorable: eight out of every ten respondents have no trust in the system (Figure 6). Every fifth businessperson reports that the newly passed business-related laws and policies of the government have a financial bearing on the business and do not support its development. Though only the half of respondents respects for some effects if ant-corruption laws, official rules and sanctions would be consistently used for public administration, formulating of clear-cut rules to govern the behavior of officials and systematically enforcing anti-corruption laws and sanctions is one the possible approaches to fight business-related corruption. Such an approach is expected to bring about several significant results: on the one hand, administrative procedures are expected to become more expeditious and the quality of public services is expected to get better, which will facilitate entrepreneurial activities and improve the business environment considerably. On the other hand, the entrepreneurs themselves think that businesspeople will be motivated to apply ethical norms and practices in their contacts with the public institutions (Table 4).

Laying down clear-cut rules for the behavior of officials and a systematic enforcement of anti-corruption laws and sanctions will bring about changes in the relations between businesses and the administration, as well as in the firmly established relations and practices of entrepreneurs to overcome administrative obstacles.

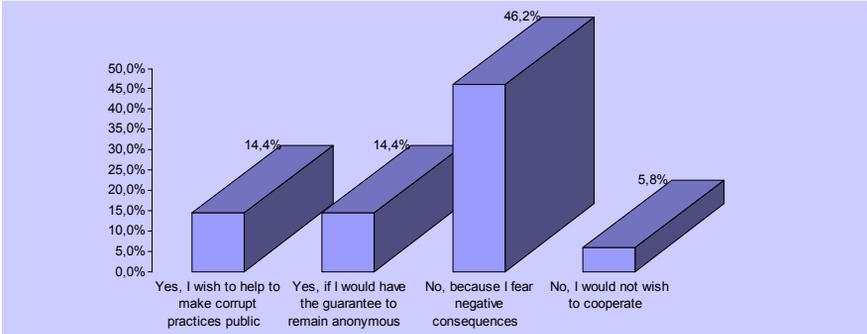
TABLE 4. REALISTIC EFFECTS, PROVIDED ANTI-CORRUPTION LAWS AND SANCTIONS (%)

	Is realistic
The more SME friendly environment could be formed and their role in Armenian economy could be increased	28.8
The personal responsibility of public officials could increase and they would be motivated to offer better services	27.9
The reputation of public institutions as the “professional entities of the state” and trust in public services could increase	21.2
The ethical practice would be formed in relations between business and public officials	10.6
Administrative procedures would be made easier and more efficient	9.6

3. PRIVATE BUSINESS AGAINST CORRUPTION

Introducing and implementing anti-corruption laws and sanctions is associated primarily with the role of the governments. There are contradictory opinions about the possibility of counteracting corruption by setting up a neutral non-governmental organization, whose task will be to publish anonymously in the press proven corruption practices and to make corrupt officials publicly known. Most of the interviewed businesspeople report that they would cooperate with such an organization, if they have had to pay a bribe. They are prepared to do this, provided their anonymity is guaranteed. However, even if this condition is met, the share of people who would rather not do so because they are afraid of negative consequences remains high (Figure 8).

FIGURE 8. WILLINGNESS TO DECLARE THE EXTENT OF THE BRIBE AND THE PERSON WHO SOUGHT IT (%)



4. BUSINESS ASSOCIATIONS – A TOOL TO FIGHT CORRUPTION.

The possibility to counteract the spread of corruption by taking part in various business associations is still relegated to the background. Only one of five interviewees (22.1%) declared that they are members of some business association. Membership in some business organization differs for the various branches of the economy and is most significant in industry (47,8%), services (34.8%), construction (8.7%), and agriculture (8,7%).

Although more than 80% of the interviewed entrepreneurs declare that they are interested in further anti-corruption initiatives and are willing to support them, the data show that they assume a passive rather than an active position in seeking solutions to counteract corruption and in participating in such initiatives. Even in cases when they are willing to support certain anti-corruption initiatives, they would prefer to act individually rather than through some business organization, and would do so only if their anonymity is guaranteed.

VI. MAIN FINDINGS AND RECOMMENDATIONS

The major obstacles, facing SMEs in their efforts to cope with corruption are: the lack of transparency in the activities of the administration, the shortcomings in the judicial system, as well as a number of other problems, which are of a more general nature and concern the economy of the country, as a whole.

Companies are in a very difficult situation when bribes are solicited. They find themselves confronted with different dilemmas:

- Even if a solicitation/corruption case is discovered and criminal prosecution of the public official happen, the money paid cannot be recovered.
- Sometimes a company may not be aware that certain payments made in exchange for services rendered may be to the benefit of a public official and constitute a bribe.
- Large investments already made for a project make it difficult for companies to resist solicitation of bribes made in a late stage of a project.
- Solicitation is often made indirectly and implicit, often using middlemen. Companies are told or strongly led to believe that without payment of bribes the envisaged business transaction could not be realized or an official procedure (e.g. in the tax sector) may last very long and be cumbersome. In such cases, no sufficient proofs would be available to follow up the situation of solicitation. Companies may be reluctant to report incidences of solicitation in such cases for fear of facing complaints of slander.
- When requests for bribes are made in an early stage of business transactions, companies want and have to safeguard their business interests. Therefore, any legal governmental intervention against the solicitor of bribes must duly take into account the need of ensuring business secrets.
- Combating “high level” corruption is particularly difficult for companies to deal with without some explicit back-up support from governments.
- Invoices from agents working on behalf of a company may include items for “commissions” or “fees” which may be legitimate payments for services rendered or may, in some instances, be disguised bribe payments. Accounting provisions aimed at greater transparency do not capture solicitation since a payment will be entered on the books only if it has actually been paid. Once paid, it would be entered as a “commission” or “fee”. Further, companies may not always know whether fees requested are legitimate government requirements (for example fees to obtain documentation during a bidding process) or payments demanded by officials to improperly influence the outcome

of a decision (for example fees in exchange for being short listed or selected in a bidding process).

- As practices differ widely over the world, it may not always be obvious that a specific payment or behavior of a company violates anti-corruption laws. Such uncertainty affects international commerce seriously and may distort competition. Companies must get quick and reliable information on the legitimacy of certain business transactions. Such clearance must be provided by official sources not engaged with penal prosecution to protect substantive rights of the company in a eventual penal prosecution relating to the same transaction.

Reporting on the situation of corruption shall not be limited to the enforcement of penal sanctions and other measures against paying bribes. Both sides of corrupt practice have to be addressed by any follow-up mechanism even this may lead to naming specific situations at an early stage and without formal and comprehensive proofs in judicial terms.

- The businesspeople identify two broad classes of problems facing Armenian businesses nowadays. First and foremost they place global administrative and financial difficulties on governmental and legislative level, such as tax liabilities and all ensuing disorders and obstacles, problems pertaining to the financial and banking system of the country, and, to a large extent, the participation and role of the state in the economic processes. Next in line are issues that are directly connected with the daily management of economic entities: the spread of corruption, administrative procedures and bureaucratic obstacles. These may be supplemented by matters relating to the legal framework and problems in the execution and interpretation of the separate laws.
- The managers' level of information awareness concerning the actions of the public administration is extremely low. Nearly one-third of the respondents think that access to information about the decision-making rules and criteria regulating administrative procedures is entirely lacking.
- The practices that are most frequently associated with corruption include public procurement, contacts with the customs authorities, the issuing of licenses and permits.
- In general, the identification of the above-mentioned cases of corruption-related practices is based on personal experience.

The current legislature and regulatory framework lie in the center of all corruption-related problems. The laws are unclear and ambiguous, and they have been intentionally drafted in such manner so as to allow for equivocal interpretation. Companies, which have a monopoly on the market, draft, lobby and introduce laws which do not provide for equality, but are to the advantage of the monopolist alone. What is needed are clearly formulated laws to fight corruption and serious measures diligently carried through.

Efficiency of the bribe, the lack of control and the non-performing judicial system are some of the strongest factors facilitating the spread of corruption.

- 78.1% of the respondents have no trust in the judicial system. The reasons for this low evaluation are to be sought in the low efficiency and cumbersome methods of the institutions comprising the judicial system.
- According to the business interviewees, the system of public services is characterized by low control, breach of or circumvention of legal rules and regulations for the purpose of deriving personal benefit.

The negative attitude of business managers and executives towards corruption is prompted by their personal moral values, the alternative methods to fight corruption and primarily by the impact it has on the activity of the company.

- There are contradictory opinions about the possibility of counteracting corruption by setting up a neutral non-governmental organization, whose task will be to publish anonymously in the press proven corruption practices and to make corrupt officials publicly known.
- The possibility to counteract the spread of corruption by participating in business associations is still not perceived as an efficient alternative.
- Even in cases when they are willing to support certain anti-corruption initiatives, businesspeople would prefer to act individually rather than through some business organization, and would do so only if their anonymity is guaranteed.

The most efficient strategies to fight corruption must include, on the one hand, timely and well-ordered government measures and legal regulations, and on the other hand, the development of alternative forms, such as anti-corruption organizations, wide media publicity, etc.

- In order to improve the quality of public services and reduce the level of unofficial payments, the government should concentrate its efforts primarily on facilitating and speeding up administrative procedures, ensuring comprehensive and accurate information, and providing ongoing education and training for public-sector officials.
- When submitting the requested information (reports, letters, etc.), it is recommended to exclude the possibility of personal contacts between the representatives of economic entities and state authorities, i.e. the information should be mailed or e-mailed.
- Establishing efficient uncorrupted bodies to control and sanction corruption-related practices and making such practices and the people involved publicly known are among the top priorities that respondents feel the government should focus its attention and efforts on, if it is to narrow down corruption.
- Formulating clear-cut rules to govern the behavior of officials and systematically implementing the anti-corruption laws and sanctions is one of the possible approaches to fight business-related corruption.
- Developing transparent rules and ethical principles for the administration and instilling an “attitude of politeness” and respect of officials towards customers may have a great positive effect.

Although SMEs representatives suggest to solve corruption and bribery problems primarily by administrative and law enforcement means, the improvement of the situation in these problematic areas requires to develop more complex strategy. Strong governmental control over various forms of the abuse of public power is necessary, but not sufficient mean for protecting business environment against corruption. From these perspective Armenian SMEs have to understand themselves not only as a victim of corruption, but also as a strategic partner in national wide coalition against corruption. According to surveyed SMEs, law changes must be combined with the improvement of the quality of public service as well as the development of an “attitude of service” among officials

The majority of surveyed SMEs would declare corrupt practices & people as well as support further anti-corruption activities.

High priority activities in the fight against corruption (proposed by surveyed SMEs) would be:

For PUBLIC INSTITUTIONS:

- 1. Distribution of complete & correct information**
- 2. Development of transparent & ethical principles for public administration**

For GOVERNMENT:

- 1. Establishment of efficient, uncorrupt bodies of control and mechanism of sanctions**
- 2. Identification and declaration of corrupt practices & people in public institutions**
- 3. Development of an anti-corruption reporting system**

VII. BREAKING THE CORRUPTION CYCLE

From the etymology of the word "corruption", it is possible to define corruption as follows: Corruption = community rupture. Ie, corruption is an offence against society. Corruption harms society at its foundations. Every appearance of corruption does damage not only to those personally engaged in it, but also to the community as a whole. In contrast, transparency and justice strengthens and enriches society.

Various methods can be used in the struggle against corruption - most often these are repressive mechanisms which society has created: police, courts, public prosecutors, various audits and controls etc. These repressive approaches, though very important, can only react to an existing problem. They are much more limited in accomplishing preventative measures. Our research showed that, within the SME community, confidence in these institutions is very low. It is precisely these state institutions that businesspersons regard as the most corrupt. As a consequence, they are very reluctant to go to the police or courts to defend themselves in a corruption-related problem.

As proactive methods we understand active influence on the economic situation by the businesses themselves. However, our research shows that entrepreneurs do not know many effective strategies to deal with corruption-related problems. This does not mean that such strategies do not exist or cannot be effectively implemented. Therefore, in the scope of this project we have developed a range of proactive proposals that businesses can engage in to break the downward corruption spiral of regress -

corruption - regress, etc. This question has also been the theme of a number of discussions with businesspersons and has resulted in a very positive response.

A progressive and systematic approach proceeds of course from the assumption that the problem, and particularly the causes, of corruption are adequately understood. Also assumed is adequate community commitment to face the problem, and increasingly effective repressive tools (police, courts, audits, etc.), which must provide a basis for proactive measures. It is also assumed and essential that the process of transformation from non-transparency to transparency is a continual one.

For the SME sector we have identified the following proactive and systematic measures that could be employed:

- Organized collective initiatives
- The creation of a transparent corporate culture
- The implementation of regular social audits
- Mediatization of the anti-corruption struggle

The research revealed that businesses confronted with a corruption problem do not tend to go to state institutions for help. The reason is that they do not have adequate confidence in the impartiality and effectiveness of these institutions. They fear that such an approach might pose a threat to the safety of both their persons and firms.

As a result, there does not exist a safe mechanism for the collection of information about corruption. It can be assumed that the vast majority of cases are neither investigated nor even reported.

One solution to this problem would be the creation of an independent mechanism to collect and record information about corruption cases among SMEs. This function could be carried out by a special association or NGO designed for this purpose. This body could focus on the following:

- The creation of an effective and reliable mechanism for the collection of information about corruption cases in the business sphere
- Documenting most common types of corruption practice
- Localizing and monitoring the most significant sources of corruption

- The publication of regular information for various government and professional bodies
- Lobbying for revision or implementation of laws relating to corruption

Through the cooperation of agencies which are involved in the struggle against corruption (such as business associations, organizations like Center for Regional Development/Transparency International Armenia, Small and Medium Entrepreneurship Development National Center, etc.) it is possible to publicize and raise public awareness of the problems firms have with corruption. We believe this is a very important step in the light of the fact that entrepreneurship still has a fairly negative public image in Armenia (entrepreneur = cheat).

This mediatization could take the form of a competition for an award for good business behavior. A further possibility is the creation of a registered "ethical business trade mark" which only firms that are confirmed as using transparent business procedures have the right to use on their products or promotional materials.

APPENDIX 1. SPECIFIC CASES OF CORRUPTION SME HAVE FACED

The following list of cases is the result of reports made by companies on a confidential bases and illustrates the situation seen from companies' point of view.

- Even though we had come out first and won a tender, the members of the commission, who had initially placed us first, altered the protocol later on. We were excluded from the list of contenders on account of "technical reasons".
- The public charge for the issuing of a certificate for the current standing of a company usually takes 7 to 8 working days. I was asked to pay bribe to obtain it within 2 working days.
- Corruption practices restrict the activity of the company as consultations and documentation are given and prepared by specially designated company officials, on whom the resolution of certain problems depends.
- Inspectors from the Sanitation service leave the shops with a bottle of whiskey, boxes of chocolates, etc.
- Making use of political influence in determining and channeling customs payments.
- Wherever I go, in order to get some problem resolved I have to, at least, bring along separate articles from our line of production (cakes, pies, etc.). The officials find this is in the nature of things; I think this is extortion.
- I don't want to say anything negative or unfavorable, because I don't know what may happen to me; I don't know what's in store for me.
- There was a serious theft in my company, but the police didn't pay any attention to me at all. The police didn't bother to pursue anyone. That's why now I'm engaged in retailing; there are fewer problems here. I don't trust anyone or anything in our country.
- Participating in tenders: there have been cases when the tender documents have been opened in advance and information was leaked to interested parties.
- I didn't agree to pay and soon afterwards my car was stolen. It was returned to me only after I'd paid a ransom.
- There are many, but it won't settle the problem, if I tell you who they are. There's this man who comes to me and tells me right at the door:

”Mr. X gives me 10% and gets the order. What do you say?” I answered in the same manner. “12%.” We got the order. Make whatever you like out of this.

- Generally refers to participating in a tender to win lines for the transportation of passengers and cargo. Offers are always meticulously prepared, well substantiated and the lowest possible. Additional discounts are also offered. In the long run, the tender is won, god knows how, by an entirely different company. Later on, it becomes clear that their offers are in no way better than ours.
- At a public tender that was held for a construction site, the companies closely related to the investor, offered an unrealistically low price. They won the contest, and later on the investor and contractor signed an annex to the contract and settled their accounts.
- Although a customs duty is levied on the goods, I have always had to pay a bribe at the border.
- You can’t go through the customs without offering the officials a carton of cigarettes, even if they have no remarks to make. If there’s a problem, however, the payments you have to make are large.
- In all of the following cases money or gifts were sought:
 - 1. Customs authorities – daily;
 - 2. Sanitation and Fire services.
- Do you want to obtain a building permission? Well, you can’t! There are too many legal obstacles. The official must violate the law to speed up the procedure. It will take up to two years to get such a permit. Make up your mind whether you want to build and do business or whether you want to give up.
- There are so many unreal and sham state and municipal departments/offices that do practically nothing. In 90% of the cases they waste your time, because things don’t depend on them alone.
- I had to transfer the contract with the energy supply company from the previous user to my company. This cost me great efforts and waste of time.
- When tenders for the shops were held, there were figureheads, who demanded a lot of money from the other applicants, promising they could persuade others not to participate in the tender.
- An inspector comes along, finds fault with something and is about to draw up a statement to the amount of AMD 150000. Then he asks: “Are we going to make out that statement?” which, in fact, means that

he wants you to slip half the amount to him and he'll forget the whole thing and go his way.

- Dealings with the court – everything is lost there.
- We have a building permission that's all made, but we can't get it because officials can't share the money among themselves.
- To obtain a permit/certificate from the Sanitation Service four officials from that institution visited my place and came up with a sham reason for rejection (insufficient lighting on the premises). After it was made clear that this was a service station and not a sewing department, and after a proper treat, the problem was solved.
- When I went to the Fire Service Authorities to initiate procedures and obtain a permit for a new site, I had to give a bribe in order to speed up the process.
- I do not believe in the “auspicious future”. It's a public secret how small business survives and how tax breaks and administrative concessions “help” it.
- Practically every day I come across the practice of asking for bribes at all levels and by all institutions that are responsible for the issuing of documents.
- Procedures are under way for receiving investment credit. I had to notarize a declaration and pay a 10% “commission” on the total amount of the credit to a certain person for the favor.
- Customs officials have a tariff to clear goods fast. Although we pay a duty on imports, they have to get what is their “due”, i.e. their “commission.”
- Even after a bribe had been paid to a tax collector, the “favor” was not done. Following a complaint (there were other violations as well) the employee was dismissed.
- Preliminary payment of 10% of the contract value will guarantee approval of your offer.
- There is a case of a colleague of mine selling unfit, hazardous medicine at lower prices. This is a form of corruption; however, there is no one to report to and thus, protect people's health.
- Municipal and other kinds of tenders should be held under clearly stated conditions; they should not be held in default or without due publicity. Such organization is a premise to avoid corruption-related practices in awarding public procurement contracts.

- The most frustrating case of corruption is when big companies that I purchase goods from fail to issue invoices.
- The customs authorities kept our trucks waiting and delayed the handling of the documents. Their motive for doing so was irregular/invalid documents, while in fact they were waiting for us to give them a bribe. But because I was fed up with making unofficial payments every time I traveled out of Armenia, I ordered the driver to conform strictly to the law and to wait. He waited for more than a week. Nevertheless, in the end we did give a bribe; I don't remember any more how much was it.
- The Sanitation Service inspectors are the greediest ones (in our region this is true of shops trading in foodstuffs). Our documents are not always in order on account of objective reasons; they know this and that's why they visit us quite often – they get their money in this way! They are happy, and so are we.
- In the field of small business you come across corruption-related practices at the very beginning – permits are always obtained through additional payments because officials intentionally delay to move things up, so you have to give a bribe. I had to pay extra sums of money at the municipality, also to a lawyer.
- A customs officer asks for a bribe for the import of goods with all documents in order.
- Obtaining public procurement contacts at a commission of 10%.
- There is word of corruption every time a minor offence is committed by the company employees and by the owner. I am deeply convinced that taxi drivers are the most abused people by government and controlling institutions.
- In order to get a run (a line), so that I can work, I have to make payments. If I don't pay up, they'll find another carrier who does.
- I have never come face to face with corruption; however, the laws on construction are outrageous. To get a lease for an extension of 20 sq.m., I waited more than 6 months and I still didn't get it. Finally, I gave up waiting and installed some containers. The law on construction should be radically altered. I've never given any bribes, but it's all meant to be done through giving bribes. If you lose patience, you'll be compelled to make a payment. You will even offer a bribe without being asked to give one, only to get your matter settled.
- Whoever drafted the law is the most corrupted – There is an unbelievable number of obstacles in the field of construction: getting

power supply installed, getting water and sewerage pipes, etc. To have a sink installed, I have to have a blueprint, a permit from the Water and Sewerage Authorities, from the Sanitation service, and I have to wait for two months. This is really outrageous.

- The competitions for the procurement of goods to public organizations are nearly always won by well-known companies that belong to the circle of friends around the employer of these public institutions.
- Waiting at the customs is connected with corruption. The customs officers have their own people from whom they get small sums of money and who go through the customs without having to wait.
- In order to obtain a credit, it is also necessary to give a bribe; for example, I still cannot obtain credit from a bank to buy a car.
- In order to participate in a privatization deal, I was asked to pay a bribe to an extremely large amount. I also had to make the payment in advance. I met all the conditions; however, the deal fell through, but I didn't get my money back. In order to get the bribe, senior officials had delayed the deal for years.
- I have been waiting for two years for a building permission. It is especially difficult to get water and sewerage permits, fire certificates, etc., when the building has been completed. In such cases, you have to have it redesigned by a recommended team, thus allowing for unauthorized payments to be made.
- A government official asked bribes to grant permits to open or adapt a business operation. Payment had to be made in cash or by purchasing goods at an excessive price. In addition, the government official offered his services to identify potential business partners against a fee.
- In a public procurement process, bidders had to pay a fee to get copies of the necessary documentation. Later they were asked to pay a substantial sum to be put on the short list and a high bribe to win the bid.
- Every day we stumble on corruption practically everywhere; however, it is very difficult to prove any of this.
- There is corruption everywhere. It is omnipresent. I doubt things may ever be brought under control.

APPENDIX 2. SAMPLE PARAMETERS

TABLE 19. DISTRIBUTION OF COMPANIES BY ECONOMIC SECTOR

ECONOMIC SECTOR	NUMBER	%
Agriculture	6	5.8
Hotel/ restaurant business	6	5.8
Construction	6	5.8
Retail trade	28	26.9
Production (industry)	38	36.5
Services	20	19.2

TABLE 20. COMPANIES BY THE NUMBER OF EMPLOYEES

	NUMBER	%
Only the respondent	13	12.5
2 – 5 people	38	36.5
6 – 25 people	38	36.5
26 – 30 people	9	8,7
31 – 50 people	4	3.8
51 – 100 people	1	1,0
No answer	1	0,3
Total	104	1.0

TABLE 21. OCCUPATION OF THE RESPONDENT (%)

	NUMBER	%
Owner	52	50.0
Director/Manager	38	36.5
Board member	11	10.6
Specialist	2	1.9
No answer	3	2.9

TABLE 22. NUMBER OF COMPANIES ACCORDING TO PLACE OF REGISTRATION

	NUMBER	%
Yerevan	39	37.5
Gegharkunik	12	11.5
Lori	10	9.6
Vayots Dzor	18	17.3
İKotayk	13	12.5
Shirak	14	13.5

APPENDIX 3. QUESTIONNAIRE

1. Which are in your opinion the biggest obstacles to small and medium enterprise development in our country?

1 Complex rules and administrative processes to establish an enterprise.

biggest obstacle essential obstacle inessential obstacle

2 Ownership rights are not guaranteed

biggest obstacle essential obstacle inessential obstacle

3 High tax burden, intricate & demotivating taxation system and tax collection

biggest obstacle essential obstacle inessential obstacle

4 Complicated transactions and time-consuming procedures to obtain permits and licences

biggest obstacle essential obstacle inessential obstacle

5 Corruption and bribery in the public sector

biggest obstacle essential obstacle inessential obstacle

6 Corruption and bribery between businesses (large enterprise- supplier-purchaser- client)

biggest obstacle essential obstacle inessential obstacle

7 Difficult access to credits for financing business activities (high collateral, etc.)

biggest obstacle essential obstacle inessential obstacle

8 High cost of capital

biggest obstacle essential obstacle inessential obstacle

9 Insufficient government incentives for SMEs (start ups and development)

biggest obstacle essential obstacle inessential obstacle

10 Arbitrary changes of laws that govern business activities (registration, etc.)

biggest obstacle essential obstacle inessential obstacle

11 Unpredictable judicial system (ambiguity of laws, problematic enforcement, etc.)

biggest obstacle essential obstacle inessential obstacle

2. Have you personally ever experienced this? (only 1 answer)

1. Yes 2. No 3. I don't wish to answer

3. For which public services do business people most often need to give unofficial payments?

1. To get building permission

always frequently sometimes never

2. To get electricity, water, telephone-line installed

always frequently sometimes never

3. To obtain community permits

always frequently sometimes never

4. To register an enterprise

always frequently sometimes never

5. To get a credit

always frequently sometimes never

6. To speed up the juridical process on the court

always frequently sometimes never

7. To register rights of ownership

always frequently sometimes never

8. To win a public tender

always frequently sometimes never

9. To avoid paying customs

always frequently sometimes never

10. To pay less taxes (reduction of tax base)

always frequently sometimes never

11. To get contracts from large enterprises

always frequently sometimes never

12. For other services (please write for which ones):

always frequently sometimes never

4. In negotiation with public officials, what do you think happens more often?

Public officials ask for bribes Entrepreneurs offer bribes

5. In your opinion, who should be punished by the law? (only 1 answer)

The person who offers bribes The person who asks for bribe

Both persons in the same way Depends from case to case

6. If a bribe is given, can you be sure that the agreement will be kept? (only 1 answer)

Yes No – you never know

7. Have you ever experienced that you paid money but the official did not keep the agreement you had? (only 1 answer)

Yes I have No I haven't I don't want to answer

8. In your opinion, how many contracts are based on bribes? (only 1 answer)

minute amount nearly a tierce nearly a half

more than a half each

9. Are you informed publicly beforehand about the official fees & payment rules for public services & transactions you require? (only 1 answer)

- Yes, costs of public services & transactions are officially announced beforehand
- Costs are officially announced, but additional secret payments are required
- Costs are not officially announced beforehand so that fees are often arbitrary

10. Do you think that the scope for corrupt practices could be reduced by improving the quality of public services? (only 1 answer)

- Yes Maybe No I don.t know

11. If you think yes, on which activities should the government primarily focus to improve public service quality and reduce the scope for unofficial payments?

1. Establish efficient, uncorrupt bodies of control and mechanism of sanctions against corruption.

- highest priority essential not essential

2. Identify and declare publicly corrupt practices and people

- highest priority essential not essential

3. Develop and promote ethical principles for public institutions

- highest priority essential not essential

4. Cooperate with business associations and other non-governmental organizations in the framework of anticorruption initiatives.

- highest priority essential not essential

5. Distribute complete and correct information

- highest priority essential not essential

6. Develop and implement transparent mechanisms of control for public administration

- highest priority essential not essential

7. Facilitate & speed up the administrative procedures

- highest priority essential not essential

8. Improve public services provision quality

- highest priority essential not essential

12. Have you ever presented a complaint due to lack of quality of public services? (only 1 answer)

- Yes No

13. If you never complained, why not? (only 1 answer)

- I don't know where and how to complain
 It would take too much extra time
 My complaint would not have accomplished anything
 I fear personal negative consequences
 Other reasons (please indicate which ones):

14. Do you trust the judicial system in our country? (only 1 answer)

- Yes No I don't want to answer

15. If you do not trust it, why not? Please, choose the 3 most important reasons.

- Laws and policies that govern business activities mostly affect businesses financially (requiring various contributions) but do not promote business development
 Laws and policies that govern business activities are ambiguous
 Applications of laws are arbitrary (no objectivity)
 Bodies of control and penalty-systems for practices that violate laws are insufficient or missing
 Other reasons (please indicate which ones):

16. Do you know which behavior of public officials violates the laws of our country and how this should be punished according to this law? (only 1 answer)

- No, I don't know
- I am somewhat aware
- I would like to know it but I don't know where and how to get information
- Yes, I try to keep myself informed

17. If a public official would know that laws and sanctions against corruption would be consistently used, would he start to refuse bribes? (only 1 answer)

- Yes
- Maybe
- I don't know
- No

18. If yes which positive effects do you consider realistic?

- Public official and business people would be motivated to use ethical practices in their interrelations.
- Increase of trust of civil society in public institutions
- Public officials could develop a sense of personal responsibility
- Public administration processes would be faster and more efficient
- Increase of SME number and their share in national economy

19. If you were forced to pay a bribe, would you afterwards declare the person who took the bribe and the corresponding amount he/she asked for to this neutral "anti-corruption association"? (only 1 answer)

- Yes – I wish to help to make corrupt practices public
- Yes – if I would have the guarantee to remain anonymous
- No – because I fear negative consequences
- No – I wouldn't cooperate
- No – for other reasons (please, indicate which ones):

QUESTIONS FOR STATISTICAL PURPOSES

1. In which marz is your enterprise registered ?

1. Yerevan
2. Shirak
3. Lori
4. Vayotz Dzor
5. Kotayk
6. Gegharkunik

2. To which sector does your business belong to ? (Please, indicate every sector !)

1. Agriculture
2. Hotel/restaurant business
3. Financial services
4. Transport
5. Production (industry)
6. Wholesale
7. Retail
8. Construction
9. Infrastructure
10. Utilities
11. Other sector, please indicate which one?.....

3. Which position or role do you have in your enterprise ?

1. Owner / co-owner
2. Director
3. Sole-proprietor
4. Board member

4. How many employees do you have ?

1. Only me
2. 1 - 5
3. 6-25
4. 26-30
5. 31-50
- 6..51-100

5. Are you a member of a business association ?

1. Yes. Please, indicate of which one:
2. Not anymore, but wish to be
3. Not – it was not valuable

6. Are you interested in further anticorruption activities and willing to support them ?

1. Yes
2. Maybe
3. No

Thank you for cooperation.

FOUNDATION FOR SMALL AND MEDIUM BUSINESSES

4 Tigran Metsi Ave., 375010 Yerevan, Armenia

Tel./Fax: (374 10) 562 400

E-mail: inbox@fsmb.am

www.fsmb.am