

Business support element of the Government's anti-crisis programme



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Treatment tantamount to the decease

The autumn of the 2008 marked the beginning of the third large crisis of the Armenian economy. Therefore, our country met the successive economic disaster not only with the experience accumulated from the various global crises, but one enriched with the lessons, learnt from the attempts to address her previous economic crises. The efforts of the Armenian government to overcome the present crisis will yield effective results only in case it considers the previous experiences of addressing crises.

The Armenian authorities demonstrate a strenuous effort and a creative approach to addressing the crisis and eliminating its consequences. Actually, the most impressive element of the economic assistance to the anti-crisis programme is the business support. Increasing the effectiveness of this component will indeed benefit the whole anti-crisis package. In this regard, the Armenian experience of addressing crises emphasizes two significant principles: non-intervention in the free market competition and non-hindrance to the democratic institutions. Another significant feature is that the anti-crisis programme and the invested financial resources should be tantamount to the scope and development of the current issues. Eventually, excessive medicine is not a remedy, but a poison.

A cocktail of standards

The current types of business support - subsidies to business projects, loans, provision of state guarantees or partial/total state investment in business shares - emphasize the readiness of the government to be flexible and transparent. Still, the choice of the type of support for an individual project is essentially discretionary, since no clear standards are defined. Moreover, the present evaluation system comprises only two standards that directly deal with the elimination of the consequences of the crisis, namely the promotion of export or the substitution of import and expansion of employment. The other standards are merely preliminary requirements for the usefulness and sustainability of business projects in the context of the anti-crisis measures, which in some other contexts, for instance, in providing loans to commercial banks, are self-standing goals. Such a 'cocktail' of standards, aimed at a variety of goals, may hinder the mission of the whole anti-crisis programme and limit its effectiveness. Incidentally, the brief information about the business projects that so far have had a positive feedback from the Operational Headquarters, implies that not all the projects that have been granted the business support, are aimed at meeting the announced standards, including the employment expansion. The latter sometimes serve the solution of issues that do not directly relate to overcoming the crisis, such as the increase of the capital investments and business effectiveness. These are indeed important issues. However, these should not be addressed at the expense of the resources allocated to overcome the crisis.

Public Money

The responsiveness of the business support is quite impressive. Essentially, the government ventures to provide significant financial resources to the business sector by immediate response procedures within a short period. At the same time such a daring action may be justified only if the principles of openness, transparency, accountability and the rule of law are implemented, principles that the government has proclaimed it adheres to. The principle of openness is partially followed: the goals, procedures and standards of the business support are public. Still, the fact of a restricted public access to the content of the applications is quite

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worrying and in the result, both the business sector and the society are generally ignorant of the concrete evidences and relevant rationale supporting the decisions about the to-be-provided support. The implementation of the principles of business confidentiality in this process does not guarantee that the provision of support to an individual business will not hinder the competition in the internal market. Moreover, providing public finances to private enterprises requires that the process, specifically the business projects of the applicants, their evaluation criteria and the other details of the process be exceptionally open and transparent.

Balance without the scale

In the anti-crisis programme the Government has included one of the most important principles, civil society monitoring. And to implement this principle it has involved two representatives of the media and expert community in the working group responsible for the evaluation of the effectiveness of the investment projects aimed at the development of the economy. The mentioned actions prove that the Government is ready to be accountable to the public. However, it is important to note that the representation of civil society in the decision making bodies responsible for the provision of business support, namely in the Operational HQ and the working group, is quite limited and does not guarantee a proper level of checks and balances. Moreover, the institute of conflicting interests of the members of the Operational HQ and the working group lacks adequate regulation. The mentioned issues limit the trust of the business sector and the public towards both these bodies and the whole process in general.

The big impact of small amendments

Thus, though the Armenian Government has adopted the basic element of the anti-crisis policy, i.e. the most important principles for the business support provision process, several essential features of the administration of this process require improvement. Otherwise, the impact and the effectiveness of this support will remain low. Thus, the essential question is how to improve the process. Actually, it is necessary to define clear criteria for the implementation of the support types, including the emphasis on the outcomes of the business project. For instance, subsidiary can be provided exclusively to the projects envisioning long-term effective jobs. Depending on the degree of the support (the part in the business plan regarding the use of the public resources), a differential approach should be used towards the requirements of the applications, their discussion and the openness of the approval process. A two-tier evaluation system for the business proposals can be introduced. The first tier should define the minimum requirements a business proposal should meet, and this should be the threshold for its consideration. Such requirements do not have an immediately anti-crisis nature, but refer rather to the general business sustainability of the proposal. The criteria of the second tier should directly evaluate the anti-crisis impact of the proposal and allow comparing the applications. Such criteria are the promotion of export or the substitution of import, as well as the expansion of employment. It is worth to involve the representatives of the self-regulating bodies of the business community in the decision making bodies responsible for the provision of the aid. Finally, in the context of aid provision it is necessary to exclude the possibility of the conflict of interests among the decision makers responsible for the evaluation of the business proposals and the provision of support.

The paper is elaborated based on the opinions passed by the participants of the discussion "Economic Crisis in Armenia: Are We on the Right Way Out?", which took place on April 17, 2009. The roundtable discussion was attended by independent analysts, government officials, and representatives of the international organizations. The round table was organized with the support of the Friedrich Ebert Foundation.