



COVID-19
RESPONSE

The Impact of COVID-19 on Trade and Structural Transformation in Armenia:

Evidence from UNECE's survey of Micro, Small and Medium Enterprises

17 December 2020

UNECE

Scope of the Assessment



370 micro, small and medium enterprises (**MSMEs**) from across the country, including 177 manufacturing enterprises and 193 farmers and main forwarders operating in the country.



The transmission channels of the pandemic's effects on the economy and the influence of non-tariff measures (**NTMs**) governing trade in goods therein.



Supply chain disruptions and their impact on trade activities.



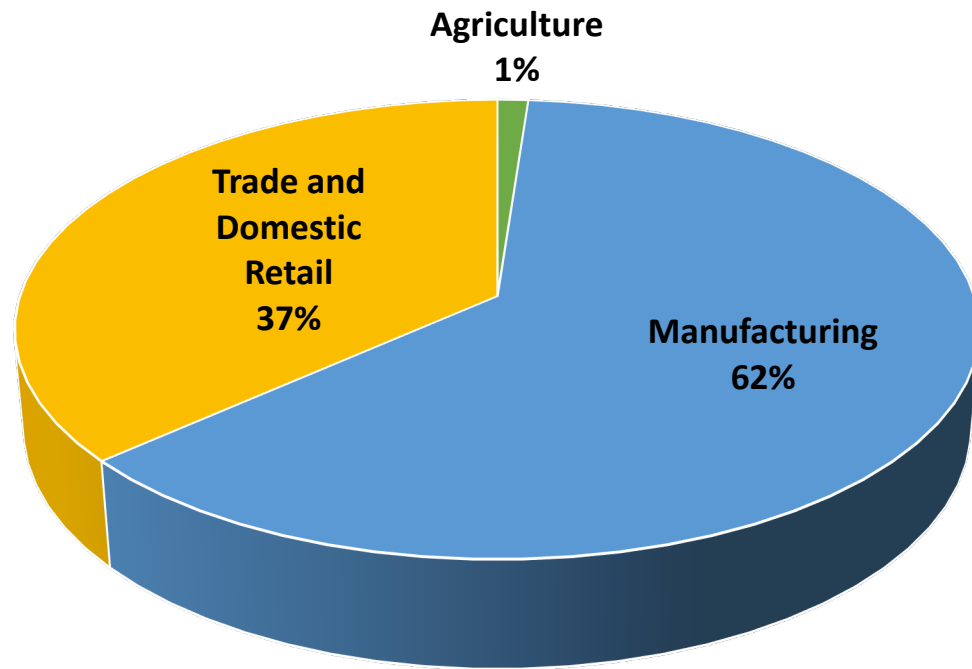
The MSMEs' **coping strategies**: how they used their assets to maintain operations.



The **ripple effects** of the trade disruptions on the economy, particularly those generated by the MSMEs' coping strategies.

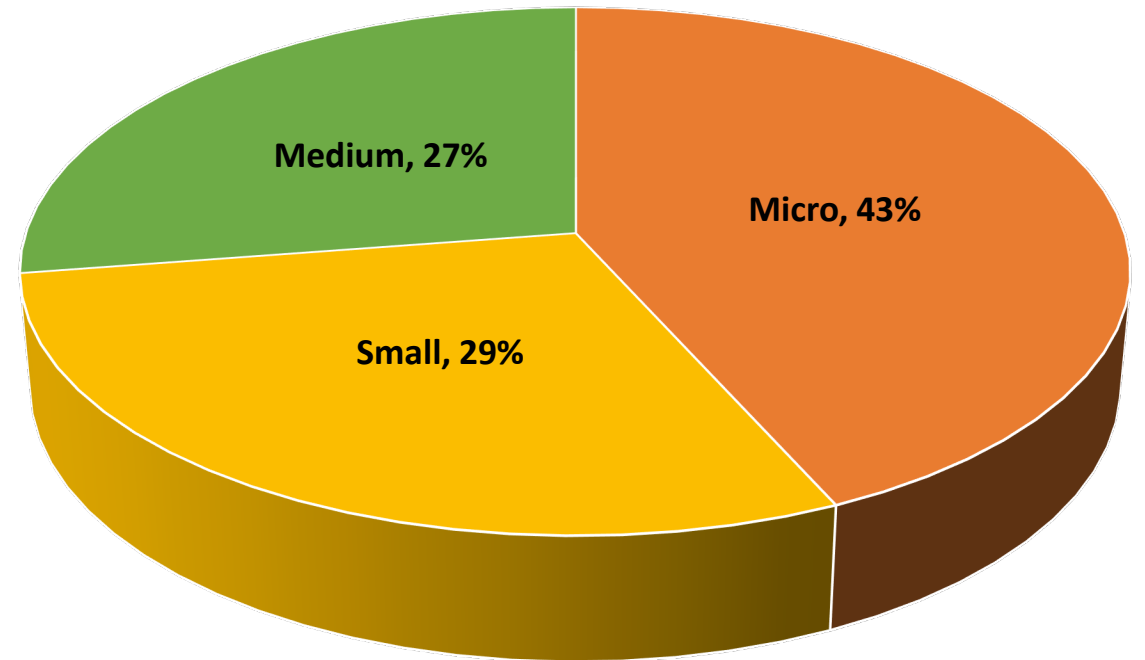
Scope of the Assessment

Surveyed MSMEs by Sector
(% of respondents)



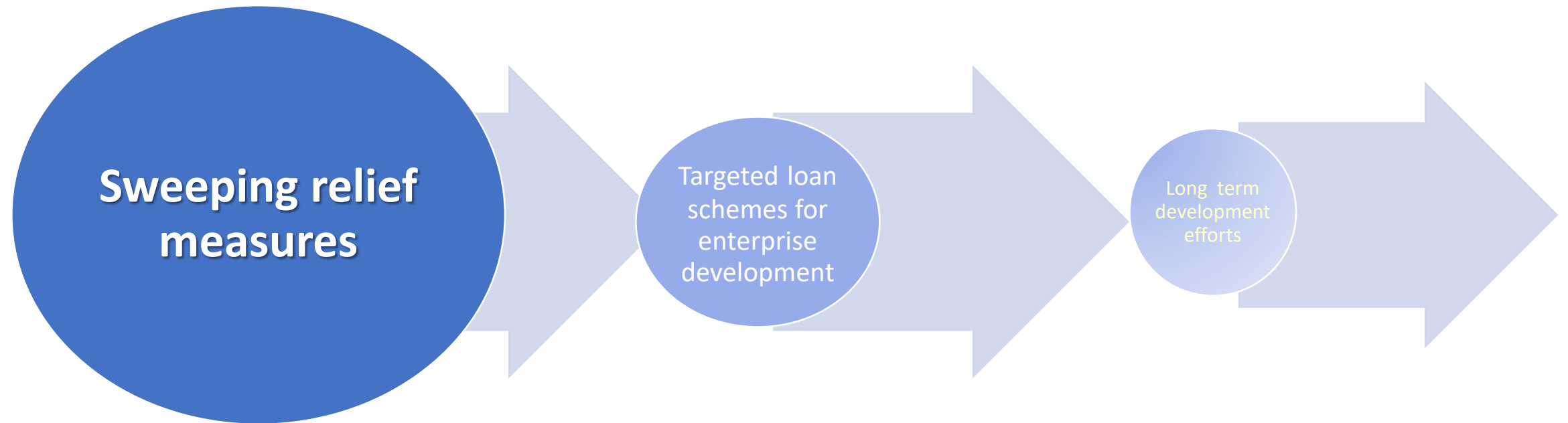
Source: UNECE Survey of Armenian MSMEs

Surveyed Enterprises by Size
(% of respondents)



Source: UNECE Survey of Armenian MSMEs

Linking Relief to Development



Non-Tariff Measures (NTMs)



Restrictive measures kept to the minimum

To hedge against shortages

- *Temporary export bans* on personal protective equipment (PPE) and certain pharmaceutical products.
- *Temporary export bans* on certain food items.

Paralleled by an easing of the financial burden on supply chain actors

- *Temporary customs duties exemptions* on imported PPE and certain pharmaceutical products (16 March-30 September 2020).
- *Temporary customs duties exemptions* on essential food items (13 April - 30 June 2020).

Trade facilitation measures

Trade facilitation measures were reinforced

- **Transparency in trade was ensured through** online publication of new NTMS on different platforms and the State Revenue Committee's Call Centre.
- **Submission of the certificate of origin for products destined to the EU (Form A) was simplified:** Since 1 January 2018, Armenia has been applying its new electronic "Registered Exporter System" within the GSP+ framework, which has contributed to the streamlining and simplification of export procedures to the EU. Moreover, the requirement of providing the original certificate at BCPs (as part of customs clearance procedures) was lifted.
- **Transit traffic** continued to be facilitated by cooperation arrangements anchored in regional agreements and UNECE international transport conventions and protocols.

Trade facilitation measures not used to their full potential

Capacity shortfalls undermined the Government's ability to mitigate supply chain disruptions

- *Issuance of trade documents was slowed down by continued reliance on paper-based procedures* as the Government has yet to fully transition to a paperless trading environment.
- *Conformity certificates were issued with significant delays and are not recognized internationally*, which increased trade costs since products were retested in destination countries to verify compliance with applicable health, safety and environmental protection regulatory requirements.
- *Border control was slowed down by continued overreliance on physical inspection*, which amplified the delays caused by the special health and safety arrangements for containing the spread of virus.
- *Transit traffic was impeded by the difficult terrain of the Upper Lars highway*, which runs through Georgia and constitutes the country's sole overland conduit to the Russian Federation, and the Russian authorities' border control and health protection measures to contain the spread of the virus.

Supply chain disruptions



Challenging Transit Conditions

- Armenia's access to international trade routes is only possible via Iran and Georgia and both routes present significant challenges owing to the lack of adequate infrastructure.
- Lack of clarity over the Eurasian Economic Union (EAEU) customs transit procedures.
- Customs Service is yet to achieve compliance with the EAEU revised data structures pertaining to customs and transit declarations. It is yet to integrate its information system with the systems of the EAEU member countries.

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- Increased isolation from mainstream trade
 - Inflated transport costs

Supply Chain Disruptions Mitigated by Proactive Business Strategies



Mitigated by the MSMEs' proactive approach: The majority were well prepared having planned and successfully arranged shipments in January and February 2020 before the unfolding of health protection measures.

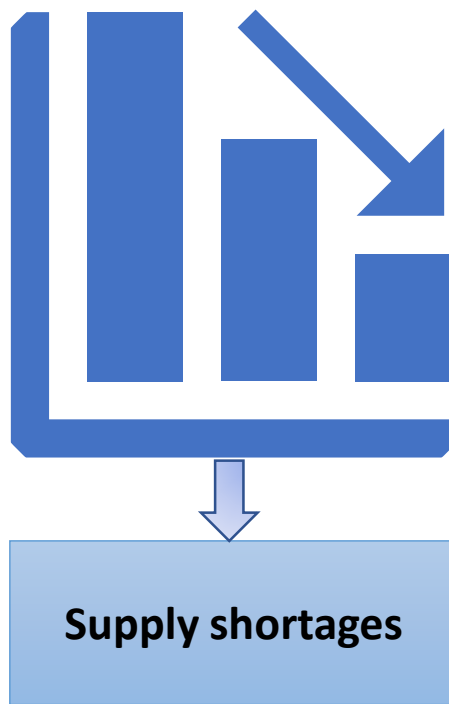


By anticipating the enormous stress on international transport routes, the MSMEs mitigated their income fallout.



Around 60 per cent were able to maintain their pre-pandemic export earnings over the course of January-July 2020.

Stunted Imports



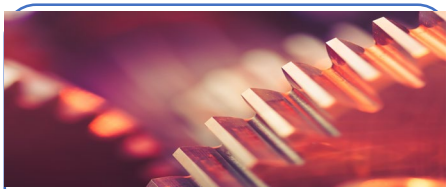
- Closure on non-essential businesses in partner countries.
- Delayed deliveries.
- Increased prices: inflated transport costs and international suppliers' tendency to renegotiate price levels established under their pre-pandemic sales contracts.
- Finding new suppliers was difficult. Food producers most affected owing to the impossibility of fulfilling national regulatory requirements applicable to non-EAEU suppliers.

Limited recourse to growth enabling coping strategies



Limited engagement in e-commerce

- Only 19 per cent of the surveyed MSMEs.
- Mainly to boost sales in domestic markets.



Limited production repurposing

- Only 4 MSMEs repurposed production.
- Part of their production lines to respond to the increased domestic demand for hand sanitizers.

Seeds for a more developed air cargo industry

Solutions that were thus far too challenging

Contributed to addressing the industry's limited supply capacity

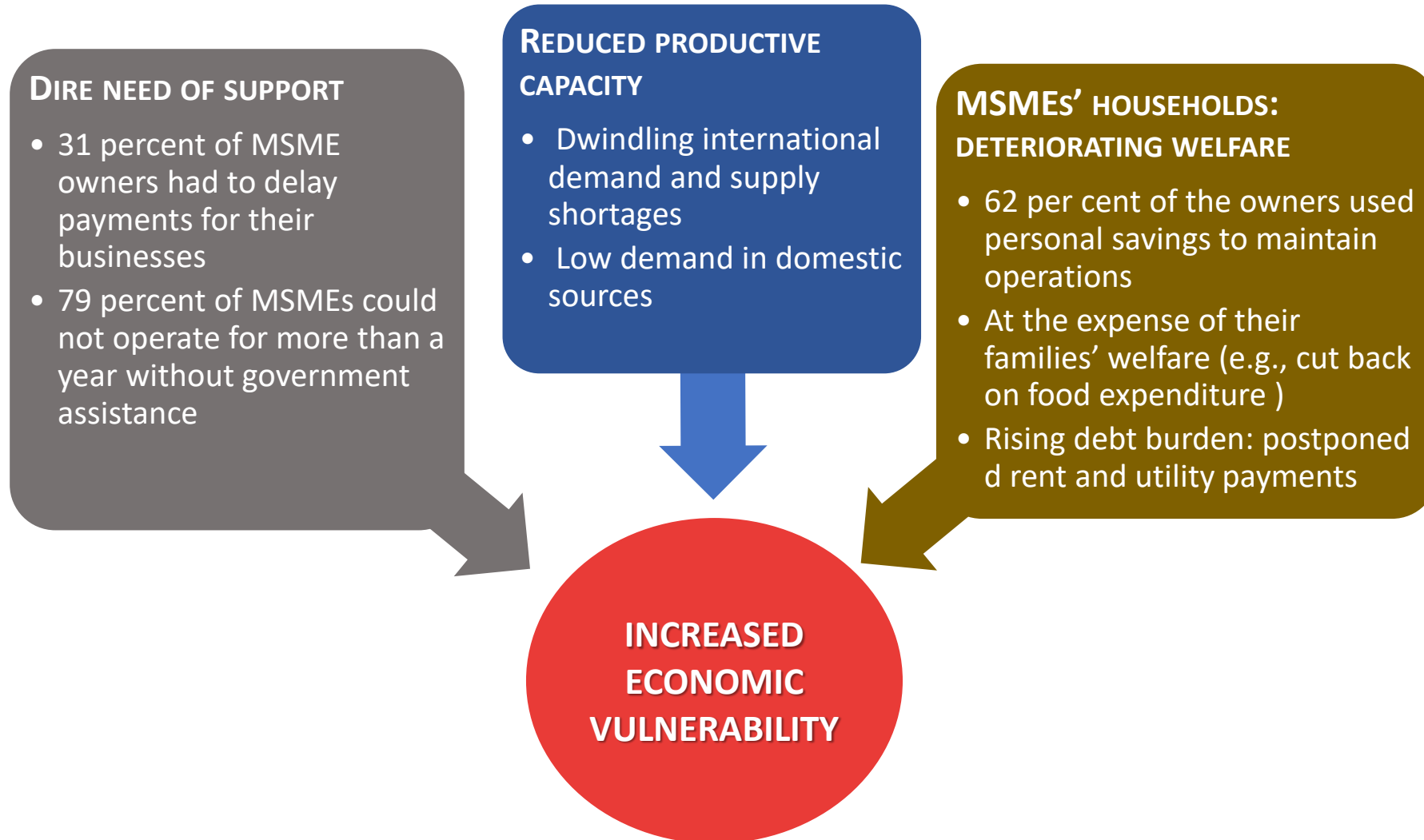
Some leveraged partnerships with counterparts in Europe to transport cargo by *charter freighters*: some were in the process of completing negotiations for securing regular charter freighters (once a week).

Laid the ground for e-commerce

One of the major forwarders *digitalized its services* benefiting from the Government's credit schemes: Smart lockers at main shopping centers to enable online shoppers to retrieve shipments from locations that are closer to their premises.



Increased Economic Vulnerability



Linking Relief to Development: Emergency and Long-Term Needs

Emergency Needs	MSMEs are struggling with bank loan repayments
	MSMEs are experiencing shortages in working capital
	MSMEs must piece together information on applicable trade rules and administrative procedures from different information sources
	Improve transit trade conditions : online exchange of customs information with Georgia: achieve compliance with the EAEU revised data structures pertaining to customs and transit declarations; integrate its customs information system with the systems of the EAEU member countries
Long-term Needs (structural transformation)	Transition to a paperless trading environment
	Further develop customs risk management system
	The road and railway network is under-developed within the Armenia and the region
	Develop cargo handling capacity at main airports
	Further develop the national quality infrastructure : Support Armenia’s National Accreditation Body (ARMNAB) in its efforts to join the International Accreditation Forum (IAF) Multilateral Recognition Arrangement, the International Laboratory Accreditation Cooperation (ILAC) mutual recognition agreement (MRA) and European Accreditation (EA) Multilateral Recognition Arrangement: and, develop the metrology system
	Enable the MSMEs to meet regulatory requirements in destination countries (international standards implementation)



THANK YOU

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