
CLIENT NOTE

The Armenian Government's Support Package for SMEs (COVID-19)



OVERVIEW

As with many things in life, there is no simple answer to “how to make a successful investment?” If you had been an early investor in McDonalds and purchased equity, you’d be rich. If you had bought a debt investment, you would have earned a decent return on your money. On the other hand, if you buy into a business that fails, your best chance to escape unscathed is to own the debt, not the equity.

All of this is further complicated by an observation that famed value investor Benjamin Graham made in his seminal work, Security Analysis. Namely, the equity in a business that is debt-free cannot pose any greater risk than a debt investment in the same firm because the person would be first in line in the capitalization structure in both cases.¹

The Government of Armenia continues to promote its business environment. This time, it is targeting small and medium-sized businesses, confirming the third support package to neutralize the economic consequences of COVID 19.

¹ Benjamin Graham. "Security Analysis, Sixth Edition." McGraw-Hill Education, 2008.

The spread of the Coronavirus (“COVID-19”) in the world is developing rapidly, leaving many small and midsize business (“SME”) owners uncertain about their future.

When the epidemic reached the Republic of Armenia, the Armenian Government (“Government”) contributed by lending support to those in the business environment who are willing to take further risks using the Government-developed assistance program.

We understand, this year has been difficult for many SMEs, with several recent events leading to economic and personal challenges.

Unfortunately, these concerns are deemed to be justified. However, there are some actions you can take to safeguard your business while protecting your employees and your customers at the same time.

On March 26, 2020, the Government set out a package of targeted measures to support SMBs during this period of disruption caused by COVID-19 (hereinafter referred to as the “Support Package”). This package shall be rolled out very quickly and will include economic stimulus measures.

For your benefit, our team has summarized the Support Package developed by the Government, and we would like to bring it to your attention for consideration.

Hopefully, this opportunity will become a great first step for SMB owners who are overwhelmed and unsure of what their future holds.

Practical steps that are recommended to follow:

- read all the information about the project carefully and make sure your business is eligible for support funding;
- contact the local offices of institutions that have announced the program and discuss the possibility of receiving support;
- have all the documents and information prepared to enable the relevant institution to quickly review your documentation and assess your business and support modalities.

HIGHLIGHTS OF THE ARMENIAN GOVERNMENT’S SUPPORT PACKAGE FOR SMBs

The main purpose of this Support Package is to mitigate the risks of SMBs with the following features.

Beneficiaries

Business entities are all the organizations and individual entrepreneurs, registered and operating in Armenia for at least the past year and which ensure compliance with all of the criteria listed below:

The main spheres of activity of those entities are:

- Manufacturing;
- Accommodation and food services;

- Transportation and storage services;
- Ingoing tourism;
- Other customer services,
- Healthcare.

Preconditions

1. For 2019, the made turnover was between AMD 24 M. and AMD 500 M.;
2. The turnover for each quarter of 2019 was not less than 10% of the yearly turnover;
3. The entity did not have any overdue credit or tax liabilities during 2019 and submitted all SRC tax reports on time;
4. According to data given by the ACRA system, the entity has reportedly fulfilled its credit obligations promptly.

Assistance/Loans

Commercial banks and credit organizations operating in Armenian are supposed to be loan providing agencies. The Investor Support Center (hereinafter referred to as the “ISC”) will to the aforesaid agencies service fee for each loan.

Assistance can be granted solely concerning those loans which are to be used for financing the following costs:

- payment of salaries or other types of remuneration (no more than AMD 300,000.00 monthly for a maximum of three months per employee);
- payment of taxes or other state fees;
- purchase and import of material to be used in the RA for production by the same entity;
- payment for utility services for a maximum of three months;
- rental subsidies.

The extended loans shall comply with the following requirements:

Currency	AMD* *In case of co-financing, a part of the credit to be provided by a financial organization may be in foreign currency as well.
Term	Up to 36 months* *No loan repayment in the first six months.
Amount of total loans subject to assistance	Up to AMD 50 M., but not more than 10% of the business entity's yearly turnover for 2019
Manners for the loan use	Non-cash and via bank transfers only after the confirmation of the cost effectiveness during the next three months following the loan confirmation

Practical steps that should be taken:

To receive the loan, a business entity may apply to the ISC providing the personal guarantee of the owner of the entity or the other person(s) participating in the management of the company (compliance with the requirements of the ISC is mandatory). After the confirmation, a contract will be concluded between the ISC and a bank.

The loan rate will be as follows:

1st year	0%
2nd year	0%
3rd year	12%

The ISC will do continuous monitoring by receiving the data from the SRC of the RA, the business entity; and the bank. Based on the given information, the ISC may stop financing and/or demand an immediate repayment of the loan.

HOW CAN WE HELP?

Our team is ready to help and prepare all the necessary and required documentation for you to receive the Government Support Package.

NOTE: This material is for general information only and is not intended to provide legal advice

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