



**American University of Armenia**

Masters' thesis:

**THE STATE REGISTRATION OF CLOSED JOINT STOCK  
COMPANY IN ARMENIA**

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## **Abstract**

Since independence declared in 1991, the Republic of Armenia has been going through a comprehensive economic and political reform process. The Government has initiated an extensive privatization program, including many of the major state-owned enterprises. An ongoing legal reform resulted in a restructuring of the country's judiciary system, and numerous new laws and regulations have been passed—including a new Constitution – to develop a more open and market –oriented business environment.

The Armenian Government has made positive steps in terms of introducing and simplifying the formal laws and regulations to provide incentives for registering a new legal entities. The new Law “On State registration of legal entities “ was adopted in 2001.

However, informal ways of registering legal entities are still present in Armenia because the lack of transparency and availability of formal rules undermine the effectiveness of simple formal rules and regulations.

The purpose of this paper is to describe the registration procedure of legal entities in the Republic of Armenia, identify the Armenian domestic procedure and essential pre-conditions for registering a new legal entity, compare this process with international best and transitional countries practice, evaluate and make recommendations for this sphere.

### **1. Transaction description, Public Policy/Private Interest clarification**

Registration is an entry mechanism for legal entities to start up a new business. According to RA Law on State Registration the registration is the State's acknowledgement of the legal capacity of the created legal entities<sup>1</sup>. This legal capacity includes existence of company's charter, seal, bank account and the state registration certificate which is a document confirming the fact of state registration.

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<sup>1</sup> Article. 3, p.1 of the RA Law on State Registration of Legal Entities

The governments register companies to ensure that these activities are in accordance with the existing legal framework and to perform the main regulatory functions which include tax collection, minimizing dangerous for the public of dishonest business. Creation of legal entities which can be easily identified due to a unique name with rights and responsibilities (in case of bankruptcy or litigation among shareholders), statistical purposes, providing important information for the government on sectors, size, ownership of enterprises are also included in the public policy objectives. Furthermore, governments argue that some regulations are in place for protection of public/consumers from buying low quality products, for obtaining quality services and for prevention of the registration of fake companies.

Ease of the registration process is essential for providing incentives for starting up and expanding business activities, for establishing more business companies which contribute to the employment and industry. The procedure of registration is very important for creation of a private sector. This transaction will help to create stronger business which promotes and contributes to the strengthening of Armenia's economy. This in its turn enhances state's capability for ensuring success in business and for providing necessary services from state's officials.

### **Private actors involved in the transaction.**

The private sector (individuals or legal entities of Armenia who want to establish legal entities) from one side and the State Register on the behalf of Armenia from the other are private actors involved in the registration procedure.

On the one hand the interests of the actors converge when the private sector benefits from formalizing its business by having access to business services, finance or government procurement increasing the chances for productivity and growth. On the other hand interests diverge because the Law is ambiguous and it leads to the intentional prolongation of the registration procedure by state officers and consequently to take bribes for making this procedure quicker. Also there are too many documents needed to be submitted by individuals and legal entities to several departments and state offices and because of these legal entities are in less privileged position than state officers.

In Armenian reality the registration procedure is not simple and straightforward because our government requires additional formalities to start a business beyond simple registration.

Also, in developing and transitional countries like Armenia it is often associated with bureaucracy, corruption and lack of transparency or accountability. Armenia is a particularly difficult place to do business given inconsistent implementation and interpretation of laws and regulations, a weak court system, an inadequate legal/regulatory environment and widespread system of massive corruption.

## **2. Armenian Legal Framework**

The legal system of Armenia has the following sources concerning the state registration: RA Civil Code dated April 14, 2007 as amended through 14.04.2007 and RA Law on State Registration of legal entities dated April 3, 2001 as amended through 22.03.2005 (hereinafter Law on Registration).

### **2.1 Creation of legal entity.**

In order to start up a business in Armenia, it is required to establish a business entity (legal entity)<sup>2</sup>.

The Close Joint Stock (hereinafter “CJSC”) companies as well as other legal entities are subject to state registration by the procedure established by RA law<sup>3</sup>. According to the Law on Registration the state registration is the State’s acknowledgement of the legal capacity of the created legal entities<sup>4</sup>.

A legal entity shall be considered created from the time of its state registration and shall be considered as terminated upon completion of the process of enterprise liquidation by the State Registry<sup>5</sup>.

### **2.2 Documents necessary for the State registration.**

In order to register a CJSC the following documents are required to submit to state register:

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<sup>2</sup> Article 72, p. 3 of the RA Civil Code

<sup>3</sup> Ibid., Article 56, p. 1

<sup>4</sup> Article 3, p. 1 of the RA Law on State Registration of Legal Entities

<sup>5</sup> Ibid., Article 3, p. 1

- a) the application of the founder (founders) of the legal entity;
- b) the Minutes of the Resolution of Founding Meeting, signed by the chairman and secretary (except for legal entities founded by one individual). If a legal entity is present in the membership composition of the founders, then it is necessary to submit the decision of the authorized body of the management of the founder legal entity.
- c) at least two copies of the charter approved by the Founder's Meeting
- d) the receipt of the state duty payment<sup>6</sup>.

The following documents should also be attached to the application form:

1. the Power of Attorney if the application is submitted by a person authorized by the Founder',
2. original receipt confirming payment of the applicable state duty,
3. relevant permission or approval of RA Government, if the company name includes the words "Armenian", "Armenia" and their translations, names of the Republic of Armenia administrative territories, full or short name of a famous person used in the company title. Moreover, a state duty of AMD 600 000 is charged each year for using the words "Armenia", "Armenian" and their translations.

The date mentioned in the application form and registered in the entry book is the date when all the necessary documents are received. This date should be signed by the person who receives it and on the same date it is registered in the entry book<sup>7</sup>.

In addition it is needed to show that the CJSC has a deposit of at least 100 000 Armenian Dram in a temporary bank account. After completing the registration process of legal entity the State Register issue the state registration certificate – the document which confirms the fact of state registration. This certificate shall be granted in the territory of the Republic of Armenia (state registration certificate<sup>8</sup>).

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<sup>6</sup> Article 21 of the RA Law on State Registration of Legal Entities

<sup>7</sup> Ibid., Article 15

<sup>8</sup> Ibid., Article 18

### **2.3 Grounds for rejection the State registration.**

State registration is rejected if there is a breach in the rule of the establishment of the legal entity defined by law or if the Charter does not comply with the requirements of the Law on registration<sup>9</sup>. In these cases State Register's rejection should be provided in written form within 2 days after receiving the documents indicating all the basis and reasons for rejection<sup>10</sup>. The documents that are considered to be the principles for rejecting the state registration are not returned<sup>11</sup>. The rejection of state registration as well as avoidance from registration can be appealed to the court<sup>12</sup>. It is not allowed to reject registration of a legal entity because of the motivation for its being inappropriate<sup>13</sup>.

If the state registration is not rejected within the period defined by law it is considered to be effective and the relevant certificate under art. 18 of the Law on Registration should be given to the applicant no later than within a day after the period for registration has been expired.

## **3. Research and case studies**

The general legal framework covers the registration process of legal entities has undergone a series of changes and reforms. Research shows that starting from 2000 laws that governing registration process of legal entities was amended 15 times.<sup>14</sup> This is a vivid indication that laws are not properly incorporated and consequently set obstacles during the registration process and further functioning of legal entities. Based on discussion with businessmen and State Registry's officials the most common obstacles are lack of legal knowledge, ambiguity of the law governing the process and as a result extension of the registration process and corruption.

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<sup>9</sup> Ibid., Article 16, p.2

<sup>10</sup> Ibid., Article 16, p.3

<sup>11</sup> Ibid., Article 16, p.3

<sup>12</sup> Ibid., Article 16, p. 8

<sup>13</sup> Ibid., Article 16, p. 5

<sup>14</sup> Pashtonakan teghekagir, 2005, N7

### 3.1 Legal barriers.

One of the main legal barriers for legal entities and individuals is a lack of legal knowledge – ignorance of the law governing this process from officer’s side. In that case Register’s officers intentionally extend the process which leads to the corruption. For example, the decision on rejecting the state registration should be in writing and reasoned but in reality it is not true. It also should refer to the rules of the law the requirements of which had not been met while creating a legal entity or the rules that contradict the legal entity’s charter<sup>15</sup>. According to the Art. 16 p.3 of the Law on Registration the registration should be rejected in writing with the “mandatory notice about the grounds for the rejection within 5 days”. However, based on discussion with Register’s former official, in practice writing rejections are very rarely done. Register’s officers make registrants go and back multiple times in order to accept their documents.

Inconsistency with the sample charter’s and the first page of this chapter provided by State Register is another legal barrier for registrants during the registration process. The State Register has a sample of Charter and the first page but it is not obligatory to follow exactly this examples. For example, the Charter of one company can be longer, the other’s shorter etc. But Register’s officers do not waste their time to check if this chapter is inconsistent with the Law. Under article 21 of Law on Registration there is no specification that the company’s charter should be provided by the State Register or should be the same as its sample. According to the information received from businessmen it is widespread that Register’s officials very often do not accept charter and the first page of this charter because of inconsistency with the example they have.

Officers extend the process by refusing to accept the charter and first page brought by businessmen and request exactly the same as their sample or simply propose their services to bring the charter and the first page inline with the sample in change of money. If registrants do not accept this condition they need to go back multiple times which makes the process longer. Moreover, the first page is subject to be changed very often and if the company has registered for example one month ago after Register’s first page changing this company should change its page also.

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<sup>15</sup> Article 2,3 of the Law on Registration

Thus, we are faced with an intentionally lengthened process.

The absence of specification of the word “working” which should be related to 5 days (for legal entities) within which the registration must be accepted or rejected is an other obstacle leading to the extension of the process. If documents are submitted on Friday registration extends for 7 days including week-end and sometimes more but not Register’s officers nor registrants can speed up the process without legal base. Officers use the ambiguous wording for extension the process and taking bribes. Thus, registration process becomes more time and money consuming.

From all the above stated it is obvious that the regulatory environment of registration process is not transparent and accurate information is not readily available. To avoid complications it is better to consult thoroughly with lawyers or let them complete the registration process.

### **3.2 Case studies.**

Despite the above mentioned legal barriers most cases do not go to court because of complexities and uncertainties of the public institutional process available for addressing this process. A new company establishment in Armenia in almost all cases will require having someone on the ground. Based on discussion with registrants<sup>16</sup> it is preferable and less money consuming to negotiate and mediate the registration process with Register’s officers or simply let them to fill the documents and complete the whole process.

However, following from discussion with State Register’s high officials<sup>17</sup> it becomes obvious that after adoption of the new the Law on State registration in 2001, the registration process became shorter and more convenient for registrants in comparison with the old law according to which the registration process has lasted 30 days (adopted 1993, art.8, p.1). Moreover, the number of documents required for submission<sup>18</sup> to the State Registry has also reduced<sup>18</sup> making the process less time-consuming and costly.

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<sup>16</sup> Interview with G.Khachatryan, the Founder-director of “Tuf-Granit” JSC (Mar.17, 2007)

<sup>17</sup> Interview with A. Saghymyan, Former Deputy Director of Legal Department of the State Register (May 15, 2007)

<sup>18</sup> Article 12 of the RA Law on State Registry of Enterprises, adopted 1993. Article 21 of the RA Law on State Registration of Legal Entities, adopted 2001

## 4. Steps of the transaction

The main steps in registration of the legal entities are as follows:

1. Procure a written statement of deposited charter capital at a bank (1day, no charge)
2. Procure a Registration Card from the State Registry Office and fill it out (1 day, no charge)

According to the Law Registration art. 11, p.2 Company's identifying information should be fill in this card.

The State Register of Legal entities, 15 G.Lusavorich St., Yerevan 375010 Armenia

Tel: (374-1) 52 45 16, Fax: (374-1) 52 10 21

3. Pay the registration fee at any bank (1 day, no charge)
4. Registration the name of the company at the State Patent Department (2 days, AMD 5000) The Ministry of Finance, State Patent Department , 1 Melik-Adamyan St., Yerevan 375010 Armenia, Tel: (374-1) 59 53 04

5. Register with the State Registrar (7 days if documents were submitted in Friday, AMD 12 000)

According to the Law on Registration art. 16, p.1, the State Registry has 5 days to either approve or deny registration applications.

6. Register with tax authorities and obtain a tax ID- TIN (2 days, no charge) The Tax Inspectorate, 35 Komitas st., Yerevan ,Armenia Tel: + (374 1) 27 75 27

Within 30 days of registering with the State Registry, all legal entities are required to register with the tax authorities and obtain a tax identification number (TIN). Within 2 weeks of submitting the application, the local tax inspectorate issues an 8-digit TIN and the entity is considered officially registered with the tax authorities. Social security registration is now also performed by the tax authorities.

7. Obtain a right at National Police Department to order a seal for all official company transactions (1 day, AMD 6000) National Police Department, The Seal JSC, 5 E.Kochar st., Yerevan, 375010 Armenia Tel: +(374 1) 57 19 47

8. Order a seal at The Ministry of Internal Affairs

13 Nalbandyan st., Yerevan 375025 Armenia Tel: +(374 1) 56 09 08

All legal entities are required to register and obtain a company seal for all official company transactions. Business entities should apply for the company seal at the Ministry of Internal Affairs. It takes from one to 30 days. The fee structure varies according to the time taken: obtaining a seal in 24 hours is AMD 15 500 and for 30 days the fee is AMD 2 800.

9. Register with statistical office (7 days, no charge)

Government House 2, Yerevan , Armenia, Tel: +(374 1) 58 80 31

Following from the above stated the whole registration process in Armenia may take from 15 days up to two months.

## **5. International best practice**

For this part of the paper the “Regulated Event” will be researched in civil and common law countries; and more importantly, in developed and developing countries.

### **5.1 Common and civil law countries difference.**

The main difference between common and civil law systems is that in first one the registration of legal entities is associated with administrative process; and in the second one registration is mostly associated with a judicial process. In a large number of civil law countries registration is done directly by the court system by judges. This typically results in lengthy procedure, while tying up scarce resources. Therefore, increasingly countries opt for administrative treatment of registration with dedicated staff responsible for the registration.

### **5.2 Developed countries practice.**

According to the World Bank Doing Business Database 2006, which provides indicators of the cost of doing business by identifying specific regulations that enhance or constrain business investment, time needed to establish a CJSC in a capital city can range from 3 to 203 days among 155 countries included in this analysis. Under this database, Canada has one of the simplest and

fastest business entry procedures<sup>19</sup>. Business registration is possible to do in person, via mail, fax and even through the internet. The easiest way to incorporate a company is via the Corporations Canada online filing center which accounts for about 80% of all corporations. For electronic filing of documents and for the use of electronic signature statutory changes were made to the Canada Business Corporations Act (1994).

In 2001 the fees and online filing costs were reduced by 50%. On-line business surveys have shown that companies are highly satisfied with the possibility to incorporate their business on-line.

The whole online registration process requires the following steps:

Step 1 (1 day): Choosing company name or number through the online system. To access the password protected website it is required to pay \$20.

Step 2 (1 day- same day as step 1): File for Federal Incorporation and Register Corporation Provincially via Corporations Canada Online Filing Center. Two forms have to be completed: form 1 for the articles of incorporation and form 2 for information regarding the registered office and the board of directors.

The government assumes the veracity of the information provided by the applicant (registrants will be liable for providing false information) and therefore no signature of a public notary is required. Once accepted, the data is entered into a database. The incorporation certificate is sent via e-mail together with the articles of incorporation. Once the company has incorporated federally, it is considered a legal entity. After this, Industry Canada provides a federally incorporated business with its Business Number assigned by Canada Revenue Agency at no charge. No physical visit is required during the whole process. Step 3 (2 days): With the business number, the company can register for tax accounts which can be done online and this information is received by the statistical office also. This procedure is done by using the business number.

Other country which has also recently digitized its registry records is Ireland, allowing for electronic processing by the registry and providing online information to customers. In this country registration fees are limited to the cost of maintaining the register. The same process has taken

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<sup>19</sup> [www.doingbusiness.org](http://www.doingbusiness.org), article "Starting a business in Canada"

place in New Zealand, Italy and UK where the time to register has been cut in half after electronic filing and release of data was introduced.

Among developed countries the registration process is mostly done electronically, takes from 2 to 5 days, and the numbers of procedure to be completed varies from 3 to 4. Registrants must usually interact with only one or two institutions, one of which is the main registration body which automatically forwards necessary company information to the other relevant institutions. These procedures can be accomplished online or electronically in one or two days.

### **5.3 Developing countries practice.**

In most developing countries (Hungary, Slovakia, Latvia, Turkey, Kyrgyz Republic) starting a business tends to involve many more steps and interaction with multiple public sector entities at different levels of government, also involving regional or municipal authorities. In these countries registration can take from 8 days to over 3 months and number of procedures from 8 to 10. Registrants can be required: personally visit up to 17 different offices, manually complete over 25 procedures, submit numerous forms containing duplicate information to different offices and perform many procedures sequentially rather than in parallel<sup>20</sup>.

But even in these countries particularly in Turkey and Hungary some aspects of the registry recently are made electronic, for example searchable online company registration data base, accessible to the public.

The complexity of registration procedures in developing countries is often reflected in the documentation requirements: a company often needs to go back multiple times to the same office or has to provide the same information to different offices. The difficulty of the situation can be explained in the light of lack of governmental and private sector resources, established practice, many institutions are newly established, there is a still transition from a post –soviet system to a completely different one. Also because many institutions are newly established, in post-soviet countries there is a still transition from post-soviet system to completely different one. As a result

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<sup>20</sup> [www.doingbusiness.org](http://www.doingbusiness.org).

the registration process in Armenia as country in transition is still burdensome and the regulation of the process is not transparent.

#### **5.4 Basic requirements for registration procedure.**

The different existing registration procedures can be summarized in five categories:

1. Screening procedures (notarize company deeds, open a bank account and deposit start-up capital, register company at Companies Registry)
2. Tax-related requirements (register for various taxes)
3. Labor/Social security-related requirements (register with pension funds, register for social security, register for various insurances such as accident)
4. Safety and Health requirements (pass inspections and obtain certificates related to work safety, building, fire , sanitation and hygiene)
5. Environment-related requirements (obtain environment certificate, register with the water management and water discharge authorities)

At this point, companies have fulfilled their basic administrative requirements, but that does not mean that they can start doing business. Interactions with public sector authorities will continue during the operation of the enterprise be it tax reporting, government inspections by different authorities or customs procedures. In conjunction, all these different administrative processes and procedures form the legal and regulatory framework for private operations.

From all the above stated it is obvious that in Armenia de jure registration process and the law governing the process can be compatible with developed countries but de facto there is still work that has to be done for making the process less time and cost consuming.

### **6. Procedure evaluation**

During last couple of years the National Assembly of the RA adopted new laws designed to improve the business environment and the Law on Registration of Legal Entities is among them. On the policy level, these efforts have succeeded. Registration of legal entities according to the new

law now takes only five days (within which it should be adopted or rejected) and is compatible with the international best practice. Thus, the new law is de jure a good implementation of the policy which is designed to make the registration procedure less time consuming.

Despite the fact that the overall policy of the registration of legal entities and the new adopted Law on State Registration are good, de facto implementation of that law is not satisfactory and should be simplified. Also there are many important issues to be covered in the new law and regulations.

As there are number of regional registers throughout the country, a framework for a simplified measures requires coordination not only between national authorities but also between local authorities. This task requires authority and power of ministerial departments involved in the registration procedure, as well as adequate financial and human resources.

## **6.1 Regulations**

The procedure of registration of legal entities in the Republic of Armenia is a bit burdensome because regulations and the law de facto are not good and fair implementation of the policy. It is very important for drafters to be more aware of the effects of these regulations on new legal entity's creation. The prevailing numbers of Armenian laws is drafted based on the laws of European countries particularly French laws and recently also German laws. Some laws are very complicated and sometimes it is quite difficult to understand them at once even for practitioners, since they have been translated into Armenian from Russian which had been translated from other languages. Besides, the drafters of these laws and regulations did not take into consideration our national distinctions and Armenian reality which is very different from the European one. Armenia can not be considered as developed country like France and consequently there are many differences especially regarding financial and human resources.

The aim of the good regulations should be to identify the improvements that are practical and necessary in our reality, bearing in mind that a balance has to be struck between the need for

changes and the burden imposed on business because it has to assimilate the change, even if it is a positive one.

Compared to international best practice of developed countries the registration procedure in Armenia is quite time-consuming and more complex. As it was mentioned and discussed in the previous chapter, the new RA Law on State Registration is compatible with International best practice but the implementation of this law is still not transparent. Despite the fact that according to the law registration the process of adoption or rejection of the new entity takes only 5 days, registrants still must go several times through different offices and governmental institutions providing the same information which associated with bribing from government officers in order to accelerate the process. The completion of the whole process, as were stated in section 4, may takes from 15 to 30 days.

## **6.2 Burdensome steps.**

In order to measure success of the registration process the following data should be monitored: 1) time, 2) cost and 3) steps of registering a legal entity. There is a clear correlation between the complexity of registration procedure and levels of corruption. The drafters of regulations that decide to simplify and streamline the registration process should going through a series of practical reforms one of which is examining the existing flow of processes and documents in regulatory framework and trying to eliminate the non-value added steps. In our situation the following steps may be considered as burdensome:

1. Some of registration steps at tax inspectorate, patent department and statistics office which are done in separate offices. The steps of registration at different (usually quite far from each other institutions) extends the procedure and makes it time consuming.

2. The intentional extension of the procedure by the officers' of state registers the prevailing number of whom are not good lawyers and have very poor knowledge of law. One of the objective reasons of this fact is unattractiveness of governmental jobs because of the low salary. Many skilful and uncorrupted attorneys are able to find jobs with higher salaries, at private law firms, other companies and at International Organizations in Armenia. Moreover, the fact that there are still

many steps in the registration procedures which are not covered by our law and regulations give officers a good chance to extend the process.

Beside the above mentioned issues, the next section will cover some other aspects of the registration procedure that still needs some more attention and improvement.

## **7. Recommendations for Reform**

A difficult and complex regulatory environment and procedure may discourage the establishment of new legal entities and reduces the potential for growth and job creation. Thus, the procedure of the registration process in Armenia should be improved in order to comply with the policy which requires a simplification of business start-up procedures leading to the potential growth of the companies operating in Armenia and consequently raising the country's economy.

### **7.1 Procedure improvement and implementation**

The procedure should be improved in order to facilitate the business registration process, stimulate the growth of new companies and subsequent job creation.

A long-term and coherent measures are needed to implement simplification process successfully and to ensure the effective coordination between administrative bodies. A successful simplification procedure is dependent on continuous and systematic assessment and monitoring of the results achieved in consultation with private business organizations. Consultation and feedback from the private business community is very important since it is experienced in practice all the registration steps.

### **7.2 Proposed recommendations for the improvement of registration procedure**

Taking into consideration all previous chapters and particularly section 6 of this paper the following is recommended:

**1. The use of Information Technology (“IT”).** The IT plays a key role in making the registration process faster and transparent. Particularly it may include the establishment of electronic filing system and making the registration information available to different government offices such as the tax administration, customs and statistical office. This guarantees a simultaneous registration procedure which requires less time to be spent on it.

**2. Training of the staff.** It is very important that staff in business registration is properly trained to deal in a competent and efficient manner with private sector representatives, especially for Armenian reality as to deal in a non-competent manner is common for Armenian officers.

**3. Rotation of the staff.** Corruption is a real problem in many countries and in Armenia also. By regularly rotating staff that interacts with the representatives of the private sector the opportunity of taking bribes may be reduced.

**4. Simplification of the sample documents.** Simplify the sample documents that need to be submitted by a company by using plain language to make them clearer and easier to understand. International practice shows that complex forms of the documents are often a source for mistakes leading to rejection of an application.

**5. Amendment to the Law on State Registration.** RA Law on State registration of Legal Entities, Article 16. p.1 states that state registration should be adopted or rejected within 5 days. The comparison of this provision with other relevant provisions and laws shows that the term “days” used in the mentioned article should be changed with the term “working days”. This amendment in the law may reduce 1) the cases when the representatives of state registers interpret the term “days” as calendar days, and 2) the corruption itself.

### **7.3 Obstacles.**

The collapse of the Soviet Union, the earthquake in several regions of Armenia and the war in Nagorny Karabagh created a difficult situation in Armenia. The lack of resources led to informal norms of doing business, patronage, bribery and other forms of corruption. All these conditions created a difficult environment for overcoming the obstacles regarding the registration procedure.

The main obstacle during the reforms process is the lack of money which is essential for the

fulfillment of all above stated recommendations especially in many transitional countries, like Armenia, where electronic registration is probably not possible yet. In this situation the focus needs to be on improving the efficiency of current services and accuracy of the registry. The Armenian Government has to continue implementation of a series of structural reforms designed to make the transition economy more market-oriented, improve governance which can lead to the simplification of the registration procedure.

## **8. Reform implementation**

For the successful implementation of the 1, 2, 3 and 4 reforms stated in section 7 the State Register should introduce the registration procedure's simplification program to the Government who should confirm this program in order to be implemented.

Under Armenian Constitution article 75 “the right to legislative initiative in the National Assembly belongs to the Deputies and Government”.<sup>21</sup> For the implementation of the reform proposed in point 5 the Government or Deputies should research this issue, propose appropriate amendment which should be adopted by the National Assembly.

The study of best practice on improving and simplifying the registration procedure of legal entities showed that there is a substantial interest for public authorities and especially business representatives concerning simplification measures. As international experience shows sometimes countries prefer to look at the experience of their neighbors, while in other countries it is easier to induce reforms by bringing external advice to the country. Although the regulatory environment for business start-ups differs in developed and developing countries, it is possible to identify some best practice which can be used as a benchmark by our country.

Concrete measures should therefore be adopted by RA Government to reduce and simplify the administrative and regulatory burdens imposed on new firms with the practical effect of saving time and reducing the costs of the registration procedure. The setting-up of a specific department or unit

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<sup>21</sup> RA Constitution adopted in November 27, 2005 art. 75

at the appropriate level should be introduced in order to coordinate and monitor all the simplification measures. As International best practice shows many OECD countries have established this kind of mechanism for overseeing reform activities across the government.

For making objective decisions it is very important to have information from all spheres of activities involved in the registration process. It is necessary to have not only statistic information but also multifaceted, independent and long duration analysis from official and non-official sources.

In Armenia the main law-making body is considered the National Assembly. Armenia. Also it is necessary to notice that law firms' and attorneys' indirect influence through businessmen the process of decision making in Armenia is very important. Neither mass media nor NGOs nor moreover individuals can influence decision making process as much as law firms and attorneys together with businessmen. Businessmen law firms (who very often register companies for their clients) are directly involved in the registration process. Thus, their influence on the simplification of registration procedure and bringing it in compliance with International best practice is very important.

However, the state plays a crucial role in institutional change by enforcing simple, transparent and accessible formal institutions as long as these institutions become dominant modes of political, social and economic activity. The state is a political organization that can create institutions and enforce rules and regulations. Despite the fact that the RA Law on State Registration of Legal Entities is compatible with International best practice, the government bureaucrats complicate the rules to seek rent and exercise their power over companies/firms. Although the formal rules have become more or less consistent with the market economy, the informal state interventions and regulations make companies evade the rules and involve in different types of corrupt activities especially in making payments.

## Conclusion

Improving and simplifying the registration procedure and as a consequence appearance of a new legal entities are considered by European business organizations to be of the highest priority, as business today has to operate in a complex and ever changing environment<sup>22</sup>. Nevertheless, it is impossible to propose a “one-size-fits-all” approach for the registration procedure, as improvements depend on the legal system in place, as well as on human, technical and financial capacities. The last one, financial capacities are the most problematic aspect in Armenian reality because it is a country in transition and with newly emerged market economy.

Best practice examples show that only a minimum of information is required for the registration such as the address of the company, a description of the company and its activities, including its start-up capital and ownership structure.

The computerization of the registration procedure is another key factor in automating and streamlining the process and thus cutting time. It will also allow the sharing information between various government authorities. For these it is necessary to have political leadership and genuinely committed partner (e.g. IT consulting company) for implementing technical requirements.

Overall, the combination of simple, transparent, available and enforced formal rules and regulations seem to decrease the costs of the registration process. Improved and eased of the legal entities registration procedure can help to improve the overall environment for the private sector and raise standards of efficiency and transparency for other government agencies.

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<sup>22</sup> Commission of the European Communities, “Commission recommendation” 22 April, 2005

## Appendix A

### *Interview with the State Register's Former Deputy Director of the Legal Department Mr. A.Saghumyan*

**Zara:** Mr. Saghumyan, how do you evaluate the overall process of the registration of legal entities in RA?

**A.Saghumyan:** After adoption the new, April 3, 2001 Law on state registration the process became much easier and short then it was during the old law. Now under the new law the registration process takes only 5 days. If we compare it with the old law's duration which was 30 days it is a good step forward.

**Zara:** Do you think the registration process in RA is easygoing or burdensome?

**A.Saghumyan:** Although Armenian legislation stipulates 5 days for completing the process in reality it is not the case. During registration registrants are faced with many obstacles, in particular with intentional extension of the process from State Register's officers who propose their services for money in order to complete the process. This is because of ambiguity of our law. For example, absence of the specification of the word "working" which should be referred to the word "days" during which registration can be adopted or rejected. This is a minor detail but it gives Register's officers a wide range for activity which leads to the corruption.

But nevertheless, I am sure that if registrants are acquainted good enough with the law and their rights it would be not so burdensome to complete the registration process.

**Zara:** In comparison with international practice how do you estimate the registration process?

**A.Saghumyan:** If I estimate it on fifth degree scale, the registration process in our republic can be graded as four minus. De jure our law is good and there is no very big difference in the duration of the registration process in compare with the International best practice (Canada, New Zealand)

where the registration process takes 3 or 2 days. Nevertheless, our law does not stipulate all the procedures which registrants should overcome in order to register a company. In reality the costs of registration is higher than it written in our law. Thus, it is much easier for registrant to let the lawyers begin and complete the registration process but it is of course, much more money consuming for registrants.

## Appendix B

### *Interview with the Founder-Director of “Tuf-granit” Joint Stock Company*

#### *Mr.G.Khachatryan*

**Zara:** Mr. Khachatryan, according to the new adopted law state registration lasts 5 days, it means that within 5 days registration of legal entity should be approved or rejected. How does this process go in reality?

**G.Khachatryan:** Yes, under the new law the process should be like you described. But in reality it is not always the case. Very often it requires having someone on the ground or paying additional money in order to fasten the process or simply not to listen additional, not necessary comments from officer’s whose aim is to lengthen the process and take bribes.

**Zara:** Thus, someone may conclude that the bribing is present during registration process?

**G.Khachatryan:** Yes, but on my opinion it is not only in our country and not only during the registration process.

**Zara:** What are the main obstacles you faced during the procedure?

**G.Khachatryan:** One of the obstacles that officers can create during the process is inconsistency with Register’s and the first page of provided Charter. They have their example of the Charter and the first page but it is not obligatory to exactly follow this example. Depends on the legal entity’s form, activity and number of shareholders charters can differ from each other. Moreover, the first

page of the Charter is changed is very often. Register's officers send registrants many times go and back in order to make their charter and the first page exactly like Register's one.

Also it is very important to know law governing the registration process in our case RA Law on registration in order to be aware about registrant's rights and responsibilities. But looking in our law can not provide registrant with all necessary information needed for registration of new company. On my opinion, our law is not precise despite the fact that it differs not too much from International best practice. As far as I know French law was the example for our authors to draft Armenian one.

**Zara:** Mr. Khachatryan you have registered companies several times, what is your advice for those who does it first time in our country?

**G.Khachatryan:** In order not to waste time, additional money and nerves it is much easier to let the Register's officers complete the registration process, for money of course. They will prepare all necessary documentation and connect with other governmental institutions involved in this process in order to complete process with them also. I am sure that it will be less time, money consuming and less complex.

**ՀԱՅԱՍՏԱՆԻ ՀԱՆՐԱՊԵՏՈՒԹՅԱՆ ՕՐԵՆՔԸ**

Ընդունված է 2001 թվականի ապրիլի 3-ին

**ԻՐԱՎԱՔԱՆԱԿԱՆ ԱՆՁԱՆՑ ՊԵՏԱԿԱՆ ԳՐԱՆՑՄԱՆ ՄԱՍԻՆ**

**ՀՈՂՎԱԾ 3. ՊԵՏԱԿԱՆ ԳՐԱՆՑՈՒՄԸ**

1. Պետական գրանցումն ստեղծվող իրավաբանական անձի իրավունակության ճանաչումն է պետության կողմից:

2. Իրավաբանական անձն ստեղծված է համարվում նրա պետական գրանցման պահից, իսկ նրա գործունեությունը դադարած՝ գործունեության դադարման պետական գրանցման պահից: Իրավաբանական անձը կամ անհատ ձեռնարկատերը համարվում է գրանցված իրավաբանական անձանց պետական գրանցամատյանում սույն օրենքով սահմանված տեղեկությունների գրառումը կատարելու պահից: Իրավաբանական անձի կամ անհատ ձեռնարկատիրոջ պետական գրանցումը հավաստվում է իրավաբանական անձանց գրանցող մարմնի (այսուհետ՝ պետական ռեգիստր) տարածքային ստորաբաժանման կողմից տրված համապատասխան վկայականով:

**ՀՈՂՎԱԾ 7. ՊԵՏԱԿԱՆ ՌԵԳԻՍՏՐԸ**

1. Իրավաբանական անձանց եւ անհատ ձեռնարկատերերի պետական գրանցումն իրականացնում է պետական ռեգիստրը, որը գործում է Հայաստանի Հանրապետության արդարադատության նախարարության համակարգում: Պետական ռեգիստրը կազմված է կենտրոնական մարմնից եւ տարածքային ստորաբաժանումներից:

**ՀՈՂՎԱԾ 11. ՊԵՏԱԿԱՆ ԳՐԱՆՑՄԱՆ ԿԱՐԳԸ**

1. Իրավաբանական անձանց պետական գրանցման համար սույն օրենքի 21-րդ հոդվածով սահմանված փաստաթղթերը ներկայացվում են իրավաբանական անձանց գտնվելու վայրի պետական ռեգիստրի տարածքային ստորաբաժանում, ինչի մասին փաստաթղթերի ընդունման մատյանում կատարվում է գրառում:

**ՀՈՂՎԱԾ 16. ՊԵՏԱԿԱՆ ԳՐԱՆՑՄԱՆ ԺԱՄԿԵՏՆԵՐԸ ԵՎ ՄԵՐԺՄԱՆ ՀԻՄՔԵՐԸ**

1. Անհրաժեշտ բոլոր փաստաթղթերը պետական ռեգիստր ներկայացնելուց եւ նույն օրը տարածքային ստորաբաժանման փաստաթղթերի ընդունման մատյանում գրառում կատարելուց հետո ոչ ուշ, քան 5 օրվա ընթացքում, պետական ռեգիստրի տարածքային ստորաբաժանումը պետք է կատարի համապատասխան պետական գրանցումը, ինչպես նաեւ իրավաբանական անձի գործադիր մարմնի ղեկավարի մասին տեղեկությունների գրառմամբ պայմանավորված պետական գրանցումը: Սույն օրենքի 11-րդ հոդվածով սահմանված, պետական գրանցման (ստեղծման) համար անհրաժեշտ փաստաթղթերի նմուշային ձեւերով պետական գրանցումը, ինչպես նաեւ անհատ ձեռնարկատերերի պետական գրանցումն իրականացվում է ոչ ուշ, քան 2 օրվա ընթացքում:

2. Իրավաբանական անձի կազմավորման՝ օրենքով սահմանված կարգի խախտումը կամ նրա կանոնադրության անհամապատասխանությունն օրենքին հիմք է իրավաբանական անձի պետական գրանցումը մերժելու համար: Իրավաբանական անձանց վերակազմակերպման դեպքում կանոնադրությունների հետ փոխանցման ակտը կամ բաժանիչ հաշվեկշիռը՝ չներկայացնելը, ինչպես նաեւ դրանցում (կանոնադրությունում, փոխանցման ակտում, բաժանիչ հաշվեկշիռում) վերակազմակերպված իրավաբանական անձի պարտավորությունների իրավահաջորդության մասին դրույթների բացակայությունը հիմք է նոր առաջացած իրավաբանական անձանց պետական գրանցումը մերժելու համար: Իրավաբանական անձանց լուծարման համար ներկայացված փաստաթղթերի անհամապատասխանությունն օրենքի պահանջներին հիմք է պետական գրանցումը մերժելու համար:

3. Իրավաբանական անձի կազմավորման կարգի խախտում կամ անհամապատասխանություն հայտնաբերելու դեպքում փաստաթղթերն ընդունելու օրվանից իրավաբանական անձանց համար՝ հնգօրյա, իսկ անհատ ձեռնարկատերերի համար՝ մեկօրյա ժամկետում, գրավոր մերժվում է՝ մերժման հիմքի (հիմքերի) պարտադիր նշումով: Գրանցումը մերժելու դեպքում մերժման համար հիմք հանդիսացող փաստաթղթերը հետ չեն վերադարձվում:

**ՀՈՂՎԱԾ 18. ՊԵՏԱԿԱՆ ԳՐԱՆՑՄԱՆ ՎԿԱՅԱԿԱՆԸ**

1. Պետական գրանցման վկայականը պետական գրանցման փաստը հավաստող փաստաթուղթ է, որն ունի հերթական համարով ներդիր (ներ)՝ կատարված փոփոխություններն ամրագրելու համար: Հայաստանի Հանրապետության տարածքում տրվում են պետական գրանցման միասնական ձեւի վկայականներ:

**ՀՈՂՎԱԾ 21. ՊԵՏԱԿԱՆ ԳՐԱՆՑՄԱՆ ՀԱՄԱՐ ԱՆՀՐԱԺԵՇՏ ՓԱՍՏԱԹՊԵՐԸ**



## Appendix D

### Hungary<sup>23</sup>

#### Registration Requirements

#### The overall process takes 38 days

<b>Procedure 1.</b>	<b>Hire lawyer who represents the company, creates company deeds, and prepares other legal documents.</b>	
Time to complete:	3 days	Cost to HUF 260,000, varies according to the complexity complete:
<b>Procedure 2.</b>	<b>Notarize specimen signatures and documents</b>	
Time to complete:	2 days	Cost to HUF 37500 complete:
<b>Procedure 3.</b>	<b>Pay at least 50% of subscription amount (at least Ft 1,000,000) into the bank account designated at the time of subscription.</b>	
Time to complete:	1 day	Cost to no charge complete:
<b>Procedure 4.</b>	<b>Apply for registration at the Registration Court</b>	
Time to complete:	30 days	Cost to HUF 125,000 (fixed procedural stamp duty HUF 100,000 + HUF complete: 25,000 publication fee)
<b>Procedure 5.</b>	<b>Register for social security</b>	
Time to complete:	1 day	Cost to no charge complete:
<b>Procedure 6.</b>	<b>File an announcement with the central and local tax authorities, statistical office and Social Security authorities</b>	
Time to complete:	1 day	Cost to no charge complete:

<sup>23</sup> [www.doingbusiness.org](http://www.doingbusiness.org), “Starting a Business in Hungary”

## Kyrgyz Republic<sup>24</sup>

### Registration Requirements

#### The overall process takes 21 days

<b>Procedure 1.</b>	<b>Deposit not less than 50% of the charter capital in a bank and get a proof thereof</b>	
Time to complete:	1 day	Cost to complete: no charge
<b>Procedure 2.</b>	<b>Notarize company foundation agreement</b>	
Time to complete:	1 day	Cost to complete: Public Notary: 150 (KGS 50 of State duty x 3 copies of foundation agreement) Private notary: 300 (KGS 50 of State duty x 3 copies of foundation agreement + KGS 150 of services fee)
<b>Procedure 3.</b>	<b>Obtain proof of company location</b>	
Time to complete:	1 day	Cost to complete: no charge
<b>Procedure 4.</b>	<b>Register at the appropriate body of the Ministry of Justice, state registration</b>	
Time to complete:	10 days	Cost to complete: KGS 174
<b>Procedure 5.</b>	<b>Register with the State Tax Inspectorate and obtain a confirmation for making a company seal</b>	
Time to complete:	2 days	Cost to complete: KGS 60
<b>Procedure 6.</b>	<b>Obtain permission to make company seal and make a seal</b>	
Time to complete:	3 days	Cost to complete: KGS 1,100 (125 of permission cost + service fees of 450-1,500).
<b>Procedure 7.</b>	<b>Register with the Social Fund</b>	
Time to complete:	2 days	Cost to complete: KGS 30
<b>Procedure 8.</b>	<b>Open bank account</b>	
Time to complete:	1 day	Cost to complete: no charge

<sup>24</sup> [www.doingbusiness.org](http://www.doingbusiness.org), "Starting a Business in Kyrgyz Republic"

# Latvia

## Registration requirements

The overall process takes 32 days

<b>Procedure 1.</b>	<b>Hire lawyer who represents the company, creates company deeds, and prepares other legal documents.</b>	
Time to complete:	3 days	Cost to HUF 260,000, varies according to the complexity complete:
<b>Procedure 2.</b>	<b>Notarize specimen signatures and documents</b>	
Time to complete:	2 days	Cost to HUF 37500 complete:
<b>Procedure 3.</b>	<b>Pay at least 50% of subscription amount (at least Ft 1,000,000) into the bank account designated at the time of subscription.</b>	
Time to complete:	1 day	Cost to no charge complete:
<b>Procedure 4.</b>	<b>Apply for registration at the Registration Court</b>	
Time to complete:	30 days	Cost to HUF 125,000 (fixed procedural stamp duty HUF 100,000 + HUF complete: 25,000 publication fee)
<b>Procedure 5.</b>	<b>Register for social security</b>	
Time to complete:	1 day	Cost to no charge complete:
<b>Procedure 6.</b>	<b>File an announcement with the central and local tax authorities, statistical office and Social Security authorities</b>	
Time to complete:	1 day	Cost to no charge complete:

## Slovakia<sup>25</sup>

### Registration Requirements

The overall process takes 25 days

<b>Procedure 1.</b>	<b>Obtain certificate of clean criminal record</b>	
Time to complete:	1 day	Cost to SKK 100 per representative complete:
<b>Procedure 2.</b>	<b>Check the uniqueness of the proposed company name</b>	
Time to complete:	1 day	Cost to SKK 100 in office, no charge if one does the complete: search on the Internet (at <a href="http://www.orsr.sk/">http://www.orsr.sk/</a> )
<b>Procedure 3.</b>	<b>Notarize Articles of Association and related documents</b>	
Time to complete:	1 day	Cost to Notary fees for verifying a signature: SKK complete: 71/signature including VAT
<b>Procedure 4.</b>	<b>Apply for trade license at the state or local administrative body; obtain operating permit to run a business</b>	
Time to complete:	7 days for a standard license; 30 days for a special license for certain types of business	Cost to SKK 1,000 for a standard license; SKK2,000 complete: for a special license
<b>Procedure 5.</b>	<b>Open a bank account</b>	
Time to complete:	1 day	Cost to SKK 500, varies from bank to bank complete:
<b>Procedure 6.</b>	<b>Apply for registration at the County Registry Court</b>	
Time to complete:	5 days	Cost to SKK 10000 complete:
<b>Procedure 7.</b>	<b>Register with the tax authorities for income tax and VAT</b>	
Time to complete:	7 days	Cost to no charge complete:
<b>Procedure 8.</b>	<b>Register with pension, sickness &amp; disability insurance and unemployment insurance at the local Social Insurance company (Socialna poistovna)</b>	
Time to complete:	1 day	Cost to no charge complete:
<b>Procedure 9.</b>	<b>Register for health and medical care insurance at any Zdravotna poistovna company that the employees choose</b>	

<sup>25</sup> [www.doingbusiness.org](http://www.doingbusiness.org), "Starting a Business in Slovakia"

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Time to  
complete: 1 day

Cost to no charge  
complete:

## Turkey<sup>26</sup>

### Registration Requirements

The overall process takes 9 days

<b>Procedure 1.</b>	<b>Execute and notarize Articles of Association of the Company ("AoA"), signature declaration of the managers of the Company and certified copies of each manager's identity card or passport</b>	
Time to complete:	1 day	Cost to YTL 440 complete:
<b>Procedure 2.</b>	<b>Deposit 0.04% of capital to the account of Competition Authority at the Central Bank, paid to any Ziraat Bank branch.</b>	
Time to complete:	1 day	Cost to 0.04 of capital complete:
<b>Procedure 3.</b>	<b>File the Incorporation Notice Form, Commitment Letter and Chamber Registration Statement the Trade Registry Office</b>	
Time to complete:	2 days	Cost to YTL 170 (registration fee of Chamber of Commerce) + YTL 180 for the first manager's signature and YTL 139.80 for each additional manager + YTL 395
<b>Procedure 4.</b>	<b>Follow up with the tax office on Commercial Registry's notification</b>	
Time to complete:	1 day	Cost to no charge complete:
<b>Procedure 5.</b>	<b>Follow up with the Social Security Institution on Commercial Registry's notification</b>	
Time to complete:	1 day	Cost to no charge complete:
<b>Procedure 6.</b>	<b>Publish Articles of Association at the Commercial Registration Gazette</b>	
Time to complete:	1 day	Cost to YTL 0.13 per word complete:
<b>Procedure 7*.</b>	<b>The Notary certifies the legal books</b>	
Time to complete:	1 day	Cost to included in procedure 1 complete:
<b>Procedure 8*.</b>	<b>Deposit the initial capital in a bank and obtain the certificate of paid-in capital</b>	
Time to complete:	1 day	Cost to no charge complete:

<sup>26</sup> [www.doingbusiness.org](http://www.doingbusiness.org), "Starting a Business in Turkey"

**Registration Requirements****The overall process takes 5 days**

<b>Procedure 1.</b>	<b>Register the business name and file the articles of association</b>
Time to complete:	1 day Cost to complete: USD 275 (USD 200 incorporation fee, USD 75 expedited service fee).
<b>Procedure 2.</b>	<b>Apply for Federal Identification Number (EIN) for tax and employer purposes</b>
Time to complete:	1 day Cost to complete: no charge
<b>Procedure 3.</b>	<b>Register online for sales tax</b>
Time to complete:	1 day Cost to complete: no charge
<b>Procedure 4.</b>	<b>Register as an employer with the Unemployment Insurance Division of the NYS Department of Labor</b>
Time to complete:	1 day Cost to complete: no charge
<b>Procedure 5.</b>	<b>Arrange for workers compensation insurance with a private fund</b>
Time to complete:	1 day Cost to complete: no charge

<sup>27</sup> [www.doingbusiness.org](http://www.doingbusiness.org), "Starting a Business in USA"

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