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# INVESTMENT REFORM ROADMAP FOR ARMENIA

## ARMENIA BUSINESS ENABLING ENVIRONMENT ACTIVITY

### Economic Development, Governance, and Enterprise Growth Project

**JUNE 2022**

This report was prepared by the USAID Armenia Business Enabling Environment Activity under the Economic Development, Governance and Enterprise Growth Project implemented by International Development Group

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**Contract Number: 7200AAI9C00055**

**JUNE 2022**

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## ABBREVIATIONS

ACN	Anti-Corruption Network
ADR	Alternative Dispute Resolution
ADZ	Advanced Development Zone
AMD	Armenian Dram
ANIF	Armenian National Interests Fund
ATB	Advance Building Solutions
BIT	Bilateral Investment Treaties
BSC	Business Service Center
CapEx	Capital Expenditure
CEO	Chief Executive Officer
CEPA	Comprehensive and Enhanced Partnership Agreement
CIS	Commonwealth of Independent States
CJSC	Closed Joint Stock Company
CMO	Contract Manufacturing Operations
CRM	Customer Relationship Management
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
EU	European Union
EY	Ernst and Young
FDI	Foreign Direct Investment
FEZ	Free Economic Zone
GDP	Gross Domestic Product
GOAM	Government of the Republic of Armenia
HQ	Headquarters
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and Communications Technology
IDA	Industrial Development Authority
IFC	International Finance Corporation
IP	Intellectual Property
IPA	Intellectual Property Agency

IPPA	Investments Protection and Promotion Agreement
IPR	Intellectual Property Rights
ISO	International Organization for Standardization
KPI	Key Performance Indicator
M&A	Mergers & Acquisitions
MNC	Multinational Corporation
MOE	Ministry of Economy
MOFA	Ministry of Foreign Affairs
OECD	Organization for Economic Cooperation and Development
OECD/ACN	OECD Anti-Corruption Network
PPP	Public-Private Partnership
PwC	Price/Waterhouse/Coopers
R&D	Research and Development
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SPIC	Special Investment Contract
SWOT	Strengths, Weaknesses, Opportunities, Threats
TC	Tax Code of the Republic of Armenia
TIDZ	Technological Industrial Development Zone
TIFA	Trade and Investment Framework Agreement
TNA	Training Needs Assessment
UAE	United Arab Emirates
UK	United Kingdom
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USAID	United States Agency for International Development
USP	Unique Selling Proposition
UVP	Unique Value Proposition
VAT	Value-Added Tax
WB	World Bank

## EXECUTIVE SUMMARY

The goal of the Armenia Investment Reform Roadmap is to guide policymakers and other key stakeholders in Armenia on actions to help boost investment and maximize its benefits for Armenia. Foreign direct investment (FDI) has grown globally at a phenomenal rate since the early 1980s. The global market for FDI is highly competitive. This competition has intensified due to the impact of the COVID-19 pandemic, global recession, and geopolitical disruption and conflict. After a decline of 40 percent in 2020-2021, FDI levels are now recovering, mainly in developed countries. This global context sets the wider background for Armenia to attract FDI.

Large countries with large home markets or significant natural resources have a clear competitive advantage in attracting FDI. In smaller countries comparable in size to Armenia, FDI has contributed to major progress and transformation in economies, rising living standards, and overall benefits for societies. This transformation in those countries was shaped by national development policies and, specifically, investment policies and programs. However, the challenge faced by countries is to determine their competitive advantages, to nurture them, and communicate these advantages to investors while implementing effective policies and promotions to attract and support new investments.

The analysis, and conclusions in the Investment Reform Roadmap, show Armenia needs to compete in a stronger and more effective way on world markets for mobile international investment. Comparator countries, including peer countries of approximate similar size and background, have mostly achieved a much better performance in attracting FDI and maximizing its benefits through enhanced economy structures, capital formation, new employment, export growth, regional development, introduction of modern technologies and new markets, and stimulating domestic investment, linkage, and partnerships. This has important consequences for achieving national economic development, social progress, and living standards.

Extensive analysis, benchmarking against peer countries, and review of international best practice in investment policy and promotion were conducted for this Roadmap, which consists of six blocks:

1. Investment Performance
2. Investment Policy Framework
3. Investment Incentives Framework
4. Institutional Framework for Investment Policy Development, Investment Promotion and Facilitation
5. Investment Promotion and Facilitation Framework
6. Investment Reform Roadmap Action Plan.

The analysis covers the period up to December 30, 2021.

### **I. INVESTMENT PERFORMANCE**

Since the global financial crisis of 2008, Armenia has struggled to attract investments. Addressing this challenge demands a better competitive performance to attract new investment projects, increased annual FDI inflows, and FDI stock.



Although the Government undertook many policy measures from 2012 to 2017, the Gross Capital Formation (GCF) trend was downward over the period. In 2017, the Government managed to reverse the trend by boosting private residential construction by subsidizing interest rates for mortgages. Besides, the launch of a large-scale mining project significantly contributed to the increase of GCF. However, the upward trend did not last. In 2019 GCF declined due to political instability and disruption of the bureaucratic system, which led to a decrease in public capital expenditure (CapEx).

From 2012 to 2020, the average annual GCF to Gross domestic product (GDP) ratio in Armenia was 12 percent. It was considerably higher in most peer countries, particularly in neighboring Georgia (26 percent) and the Kyrgyz Republic (34 percent). Armenia is at the bottom of the list with an average of 1.7 percent net FDI inflow to GDP for the period 2015-2020, which is considerably lower than Georgia (8.8 percent) and other Eurasian Economic Union (EAEU) countries (Kazakhstan 4.2 percent, Kyrgyz Republic 4.3 percent).

FDI inflow to the real sector of the Armenian economy is very concentrated both by economic activities and by source countries. For example, from 2016 to 2021, about 50 percent of FDI projects were in the electricity and gas sector. As for geographic concentration, the top source country was Russia, with a 62 percent share in FDI inflow to the real sector. In general, Russia accounts for almost 50 percent of total FDI flows, or \$5.2 billion, as of 2021.

As for the exports, in 2021, three main product groups (metal ores and concentrates, alcohol, and cigarettes) with low economic complexity indices accounted for about half of Armenian merchandise exports. As a result, in 2019, the economic complexity of exports was -0.27, 0.3 percent points lower compared to 2000. Armenia has a shallow economic complexity index compared to peer countries, except Kazakhstan. Similarly, there are also problems with geographic distribution. In 2021, about 29 percent of merchandise exports were to the EAEU countries (mainly Russia with a 95 percent share), making the Armenian economy sensitive to external shocks; for example, the depreciation of the Russian ruble or logistics problems on the Russia-Georgia border.

Global FDI trends are showing a revival in 2022.<sup>1</sup> Notwithstanding the continuing impact of COVID-19, the economic recession of recent years, supply chain disruptions and production shortfalls, and major geopolitical conflicts, the experience of many countries, mainly developed countries at this stage, shows that investors are building new strategies and seeking a competitive advantage through new investment projects and new locations. Armenia has achieved commendable success in attracting Information and Communications Technology (ICT) investment projects with significant economic contribution, exports, and employment benefits for Armenia. However, the above data, show clearly that Armenia compares unfavourably with peer countries in its overall performance on investment. Armenia needs to compete more strongly and effectively for FDI. This report indicates the essential policy and promotion strategies, structures, and activities that need to be put in place to positively transform FDI levels in Armenia.

## **2. INVESTMENT POLICY FRAMEWORK**

A sound investment policy framework is critical for FDI to deliver a positive impact in the host economy. This type of external capital can facilitate the arrival of technology and knowhow, diversification into new sectors and activities, and foster integration of domestic firms into global value chains (GVCs). Virtually all governments worldwide have investment policies to attract and

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<sup>1</sup> fDi Markets



maximize the benefits of investment. Policies and regulatory frameworks are vital government instruments and the foundation for best practice promotion and success.

**POLICY VISION AND GOALS:** Armenia's vision, goals, policy, and regulatory framework were examined and compared with peer countries. Armenia does not have a stated national policy, specifically on investment. Such a policy should draw together the vision, goals, and program actions to be able to compete and achieve FDI levels that match comparator countries. Investment policy should ideally be publicly stated and regularly reviewed and adapted to respond to the global investment environment. This Investment Roadmap proposes to develop a new investment policy and twelve policy goals for Armenia for consideration. These include, for example, matching the number of FDI projects attracted by countries in the South Caucasus, Southeast Europe, and Central Asia; increasing capital formation; and annually monitoring the direct economic impact of all FDI projects. Broad consensus and government approval of stated vision and goals on investment policy are vital for success.

**LEGAL AND REGULATORY ENVIRONMENT FOR INVESTORS:** World Bank (WB) research lists the top three factors for investors as: 1) political stability; 2) macroeconomic stability; and 3) legal and regulatory environment.<sup>2</sup> Armenia is implementing an “open door” policy on FDI. The Law on Foreign Investment 1994, and 42 bilateral investment treaties (BIT) are the main legal basis. They provide most of the internationally recognized protections and guarantees for foreign investors. Analysis presented in the Investment Roadmap shows some refinements and wider dissemination of the law are desirable.

The Law makes no reference to Enterprise Armenia or MOE, incentives for investors, nor to links with other relevant legislation such as Intellectual Property Rights (IPR). Ideally these refinements should be made, and the Law made readily accessible on EA and other websites related to FDI. In terms of FDI regulatory restrictiveness, Armenia compares well with peer countries, and is grouped closely with Estonia and Georgia in Organization for Economic Cooperation and Development (OECD) rankings. Similarly in the WB “Doing Business” series, Armenia ranks in the top fifty countries. While this series will not continue in future years, Armenia should focus on improving its performance on all indicators where it ranks behind countries like Georgia, North Macedonia, and Estonia.

Armenia has the essential legal framework for dispute resolution for investors. This framework is in line with international best practice. Obstacles and negative impacts arise, according to investor feedback, primarily in the legal implementation in the courts and judicial systems. The options of Alternative Dispute Resolution (ADR) and business ombudsman should be explored and developed. Ombudsman Institutions are spreading to many countries, including peer countries. Most are designed to work in a non-judicial way. The review of this option should preferably be part of a wider consultation with existing investors, industry, and sectors groups. This will ensure insights into practical issues experienced by investors. The MOE should lead action on this subject.

**ARMENIA'S POLICY-BUILDING COMPETITIVE ADVANTAGES:** Armenia's investment policy will need to recognize global factors influencing investment decisions. Countries that respond directly to these investor needs in their policies and promotion will improve their competitiveness and unique value proposition. These factors include:

- Target sectors and companies

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<sup>2</sup> World Bank Group. 2020. Global Investment Competitiveness Report 2019/2020: Rebuilding Investor Confidence in Times of Uncertainty. Washington, DC: World Bank. © World Bank. <https://openknowledge.worldbank.org/handle/10986/33808> License: CC BY 3.0 IGO.”

- Search for human and technological skills is a driving force for most new FDI projects
- Diaspora as Armenia’s key competitive edge
- Over 60 percent of global FDI projects are in the internationally traded services sector
- 50 percent+ of new FDI projects emerge from existing investors in many countries
- Investors now seek competitive “property solutions” that facilitate rapid start-up.

Investment policy and promotion should ideally focus on the categories of companies and sectors that offer the best prospects for new investment. A sector analysis exercises on competitive advantages is recommended.

Armenia has strong and talented people with world-class technological skills. But reports from investors suggest that demand outstrips supply. The success of an investment policy will be heavily influenced by GOAM policies on education, training, university partners, sourcing skills from diaspora, visa regimes for skilled people, and public/private collaboration and joint action on all these areas to facilitate new investment. The continuing analysis of the diaspora potential is required to reveal the great experience, knowledge, skills and opportunities in various sectors, and utilization of these in Armenia.

The new investment policy should be communicated to investors while ensuring quality dialogue with investors. This should be planned and structured with regular review and continued dialogue on progress. A concentrated “Investor Partnership Program” might be launched to assert a new positive approach to joint consultation. This enhanced dialogue process should include diaspora representatives.

**BENCHMARKING:** Extensive analysis of Armenia’s performance and activities in FDI promotion has been undertaken. This involved benchmarking with 25 comparator countries in the neighboring region, Central Asia, Southeast Europe, the European Union (EU)—including former transition countries and countries in the Middle East. Comparisons with peer countries (approximately the same size as Armenia) including high-performing countries were made. By using a regular comparative benchmarking, which is not currently done, Armenia can learn and benefit from successful investment promotion experiences in selected countries.

**PRIVATE SECTOR VIEWS ON INVESTMENT POLICY ISSUES:** Private sector views were elicited for the roadmap. Many existing investors expressed positive views on their business and investment in Armenia. Some suggested that they could support attraction of new business and investment. At the same time, they highlighted issues where they wish to see more actions:

- Quality and regularity of dialogue between the private sector and GOAM
- Government officials’ ability to resolve problems
- Institutionalizing of fight against corruption in the long term
- A unified and aligned ‘single point of contact’ for FDI investors
- Failure to enforce IPR issues in some instances

- Transparency of the regulatory system—the efforts of the Competition Protection System alone are deemed to be insufficient
- Bureaucratic procedures on safety and health requirements (many from the Soviet era)
- Legal system and judicial independence—unpredictability of court decisions
- Dispute settlement and ADR mechanisms
- Shortage of workers with vocational training
- Regulatory environment—better predictability
- Air cargo transportation from Armenia—infrastructure and frequency
- Access by international workers to work in Armenia
- Education for ICT and technology sectors
- Greater promotion of Armenia’s strengths and advantages for business.

While it is recognized that there is substantial progress in many of these areas, this list provides a potential agenda for dialogue and action by MOE and Enterprise Armenia with investors.

Stronger, systematic, and regular dialogue with existing investors was requested by new investors. Existing investors are often the best promoters of contact with potential investors, through their testimonials, networks of industry contacts, and sector knowledge. Armenia needs to review its overall approach to working more closely with existing investors.

**TEAM ARMENIA:** Competing for and successfully attracting FDI demands effective horizontal policies and practices by governments. Countries successful in attracting investment have mastered a whole-of-government approach to investment promotion and facilitation. Investment policies and promotion, which have multiple objectives and involve many economic actors, from public sector to SMEs and multinationals, are a prime example of the need for a whole-of-government approach. While Enterprise Armenia has the lead role in packaging and presenting the national, regional, and sectoral proposition to investors, it is up to others across the government and public and private sectors to ensure that Armenia’s propositions are competitive and supportive of the FDI agenda. Engaging with and cultivating this wider network of support is an essential task for countries and investment promotion agencies that aspire to implement best-practice promotion. The roadmap recommends a “Team Armenia” approach in policy and promotion for effective teamwork and frequent joint action.

**MONITORING AND EVALUATION:** Armenia does not have an efficient methodology and established system to monitor and measure the impact of FDI. This is an essential element of an investment policy and guidelines on implementing this are briefly addressed in the Investment Reform Roadmap. It is also vital to manage the activity of Enterprise Armenia and properly understand the real contribution of FDI projects. It is essential to determine the shaping of future policy and for justification and allocation of government resources for FDI policy and promotion.

Establish a robust monitoring and evaluation system is an immediate task for the Ministry of Economy (MOE) and Enterprise Armenia. The appropriate legal framework that will define the goals of the system, the actors, their functions and responsibilities, the scope of the data collected, and the

management of data flows is the first step. It is necessary to develop the logical framework (logframe), define the final, intermediate-direct results of FDI for the monitoring and evaluation, the indicators for measuring those results, and the baseline and target values of the indicators.

In order to create the proposed system, there needs to be relevant specialists and resources in the MOE and Enterprise Armenia. This Roadmap recommends a new “Planning and Assessment Department” in Enterprise Armenia to ensure the proper institutionalization of FDI monitoring and evaluation. The quality and the coverage of investment statistics, as well as the capacities of the Statistical Committee of Armenia, which is responsible for FDI statistics, should be enhanced to work with the MOE and Enterprise Armenia.

### **3. INVESTMENT INCENTIVES FRAMEWORK**

Utilizing a wide range of sources and best practices, this roadmap describes the role of investment incentives to enhance Armenia’s investment attractiveness.

**ANALYSIS OF TAXES IN ARMENIA AND OTHER COUNTRIES OF THE REGION:** Analysis of the current taxation system in Armenia in comparison with tax regimes in other countries of the region, including Russia, Kazakhstan, Kyrgyzstan, Belarus, Georgia, Moldova, Ukraine, Turkey, and Iran.

**REVIEW OF INVESTMENT INCENTIVES IN ARMENIA AND OTHER COUNTRIES:** This review includes an analysis of the current investment incentive system in Armenia and a summary of investment incentives in Belarus, Estonia, Georgia, Hungary, Kazakhstan, North Macedonia, Serbia, Russia, and Ukraine, and identifies gaps in the Armenian incentives regime.

**RATIONALE FOR AWARDING INCENTIVES:** Examines the rationale and criteria for awarding incentives in Armenia, based on analysis of Armenia, comparator countries, and best practice.

The analysis showed (a) many incentives in Armenia are diverse, relatively small in scale, and not widely known or communicated; (b) there are significant incentives only in the FEZ, such as exemption from most taxes, including corporate income tax; (c) incentives in Armenia tend to be ad-hoc, not supporting an investment strategy and investment policy objectives; (d) incentives do not address some key areas of interest to investors, such as offsetting CapEx, labor, and training costs; (e) and criteria such as exports growth/import substitution, employment, and value-addition, should apply.

This review compared the taxes and incentives with a range of comparator countries. On taxes, Armenia is broadly within the overall average in the region in terms of base corporate tax rate (18 percent compared to an average of 16.11 percent),<sup>3</sup> ease of paying taxes, and in total tax and contribution rates (scoring low on this measure—it ranked 52 out of 189 countries in the 2020 Doing Business report).

The roadmap suggests creating two sector tiers for incentives—Priority Sectors and Standard Sectors—and applies a range of criteria to each tier to ensure that any incentives offered to investment projects are of economic benefit to Armenia.

A series of recommendations for incentives consist of cash grants to incentivize key activities that would be attractive to investors. These include:

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<sup>3</sup> [Trading Economics, 2021](#)

- CapEx Incentive
- Employment Support Incentive
- Training Support Incentive
- Export Incentive
- Research and Development (R&D)/ Product Development Incentive.

Guidelines to guard against possible dysfunctional results of the incentives recommended, including problems, risks, and constraints have been made.

#### **4. INSTITUTIONAL FRAMEWORK FOR INVESTMENT POLICY DEVELOPMENT, INVESTMENT PROMOTION AND FACILITATION**

Analysis of the institutional framework for investment shows important issues that need to be addressed, and action taken, which is outlined below. Recommendations here include large-scale legislative and regulatory reforms and measures aimed at overall capacity building.

**INSTITUTIONAL CHANGE:** Frequent changes of the institutional structures involved in the development of Armenia's investment policy, promotion, and facilitation over the past ten years have led to disruptions, weakened operational capacity, and restricted Armenia's investment potential.

**ORGANIZATIONS RESPONSIBLE FOR INVESTMENT PROMOTION:** This roadmap recommends clearly defining the hierarchy, roles, and functions of organizations that are legally responsible for investment policy development, investment promotion and facilitation, and developing interagency business processes.

**CLARIFY DIVISION OF ROLES, FUNCTIONS, AND RESPONSIBILITIES:** The division of the roles, functions, and responsibilities between the offices of the Deputy Prime Ministers, the MOE, the Ministry of Foreign Affairs (MOFA), sectoral ministries, Enterprise Armenia, and the Armenian National Interests Fund (ANIF) needs to be established and legally prescribed. This will maximize the synergies and contribute to an investment-friendly environment.

**MOFA AND TRADE ATTACHÉS:** The role of the MOFA and trade attachés in the framework of investment promotion has been underestimated. The roadmap recommends the following: 1) establishing departments responsible for international economic cooperation and FDI promotion inside the central office of the MOFA (define statutory functions); 2) developing a modern concept of activities of trade representatives (trade attachés); 3) revising the relevant statutory functions; 3) providing capacity building for personnel; and 4) creating a network for cooperation, including the introduction of online communication and coordination tools.

**ENTERPRISE ARMENIA:** The structures and strategy of the agency should be strengthened, and staff numbers and budget should be increased in line with international best practice and as recommended in this roadmap. Global best-practice promotion stresses the critical importance of a strong, well-resourced IPA, that can compete for new FDI.

**ADVISORY INSTITUTIONS AND AGENCY COORDINATION:** A comparative analysis of international best practice with Armenian practice shows that Armenia lacks independent investment advisory and interagency institutions. These would provide more efficient discussion platforms for

systemic and situational issues, as well as ensure better response mechanisms for problems faced by investors.

**REGIONAL INVESTMENT POLICY AND PROMOTION RESPONSIBILITIES CLARIFIED:**

Regional and local governments are barely involved in investment promotion and facilitation. Persons should be appointed at local levels to be responsible for facilitating investments at local government levels. This can be done by making changes in the job description of senior staff members, and organizing training and capacity development for them.

**STAFF TRAINING AND COACHING:** Some of the activities recommended in the roadmap include organizing workshops for staff involved in investment policy development, and investment promotion and facilitation. Such workshops will also contribute to creating professional networks and making the process of finding solution to problems more efficient.

## **5. INVESTMENT PROMOTION AND FACILITATION FRAMEWORK**

Effective policy and promotion entail a stated government vision, policy, and objectives for FDI, stated plan of action on improving the business environment, and an FDI promotion agency that has the capabilities and resources to attract new investment projects in cooperation with other ministries, state agencies and the private sector. This overarching policy is essential in guiding the promotion strategy. This roadmap recommends developing a country Investment Promotion Strategy with specified goals for new investment projects per year, job creation and exports based on the formulated investment policy.

Enterprise Armenia is a young agency, established in 2019. From the start, it has faced major challenges due to the impact of COVID-19 and the global recession. Commendable progress has been achieved in creating promotional material (website, brochures, sector profiles), in meeting delegations of businesspeople, and in messages to existing and new investors. However, building a best-practice agency is a continuous process that takes time, training, and on-the-job experience. Armenia needs to match the approach and methods of competitor countries and agencies. Compared to high-performing agencies internationally, Enterprise Armenia has many mandates and no private sector involvement in its structure. It has approximately 16 staff, compared to 40 staff on average in IPAs of OECD countries and also a low budget that restricts promotion. It is also hindered by bureaucratic procurement procedures.

**ENTERPRISE ARMENIA ORGANIZATION:** A review of the strategy, structure, systems, staff, skills, style, and shared values (using McKinsey 7S model) showed multiple deficiencies. Enterprise Armenia needs to match the average IPA staff levels in Eurasia, namely 40 staff at a minimum devoted to investment promotion with an appropriate budget. Its structures need to be simplified with a marketing department, an investment project department, an aftercare department and a planning and assessment department. Government support to Enterprise Armenia, for the period 2022 to 2026, should ideally allow it to undertake a proactive marketing and selling approach via regular and scheduled direct contact with existing and new investors.

**OPERATIONAL FUNCTIONS:** A strengths, weaknesses, opportunities, and threats (SWOT) analysis and comparative analysis of Enterprise Armenia's investment promotion plan, marketing communications strategy, corporate guide, website, and promotion material<sup>i</sup> were also undertaken. The SWOT analysis unveiled numerous gaps and weaknesses in operational practices and systems.

The functions of best-practice IPAs comprise information, marketing, outreach to investors, facilitation, aftercare, linkage and integration, policy advocacy, and performance and impact

monitoring. Enterprise Armenia's plans and corporate strategy were examined and compared to best-practice functions internationally. This showed further gaps and weaknesses in operations that need to be improved, not surprisingly in the least, given its size and budget.

Most agencies monitor the activities (outputs) of their organization. This is vital for efficient management and work planning. But less common in some countries are the monitoring and assessment of the real impact (outcomes) of FDI. Understanding the real impact of FDI is vital to inform government policy and to justify the allocation of resources to the agency and its partner organizations. This is a task for MOE in joint cooperation with Enterprise Armenia.

While the potential of FDI spillovers is well understood, their positive effects should not be taken for granted. The extent to which the benefits of FDI will materialize for the host economy depends on a set of factors ranging from competitiveness of local producers to strategic considerations of foreign-owned firms, as well as the technological gap between domestic and foreign-owned firms and, therefore, the absorptive capacity of local producers. In addition, the role of the investment promotion agency in working with existing investors, for example, in aftercare and linkage programs, and improving the business environment and ecosystems for sectors, are vital for retaining investors and supporting business development and expansion.

**DIRECT CONTACTS—TARGETING OPPORTUNITIES:** As Enterprise Armenia moves forward with its promotion activity, it needs to ensure frequent and regular direct contact with existing and prospective investors. This contact should ideally be about the development of the investor's business in Armenia and competitiveness issues faced by each business. By understanding such issues, Enterprise Armenia will be better able to respond to concerns raised, obtain more sectoral knowledge, and seek support or relevant discussion partners for such investors. Best-practice agencies are often seen as dependable partners by existing and new investors. This goal should ideally be a central part of Enterprise Armenia culture and leadership as it develops its organization and strategy. Direct contact with investors is the single biggest differentiator between best-practice IPAs and the non-best-practice agencies worldwide.

As part of the vision and context to drive change in investment promotion and facilitation, as summarized above, the chapter recommends that Armenia should seek to become: (a) the leading country in attracting FDI projects (per head of population) in the Caucasus and Central Asia regions; (b) the lead performer compared to countries in Southeast Europe; and (c) to show measurable progress compared to small EU and former transition countries. This type of vision and objective will need to be translated into subsidiary goals and performance objectives by Enterprise Armenia, with essential support and resources from GOAM and the MOE.

**PROMOTING REGIONAL INVESTMENT:** Three principal factors come into play when potential investors are scouting for locations for a new investment, namely, regional partners, regional value proposition, and regional property solutions.

Regional government and agencies can provide significant competitive advantages by acting as good regional partners to investors, with quality information and facts on their region, with introductions to local utility providers (electricity, water, and sewage) and local suppliers and services and support in recruiting workers and in training programs. This type of support can sometimes be a major advantage for a region, as international investors will bring employment, local economic inputs, modern technologies, and methods that will benefit the wider region and will speak of the support received.



“Property solutions” that provide extensive details and descriptions of suitable sites, factories, and offices for industry are vital actions for regions. Based on stated requirements from potential investors, it is often critical that IPAs and regional partners collaborate to show locations to investors. This can sway a decision in favor of a regional site when it is done professionally and efficiently.

**IMPROVING PERFORMANCE AND CAPABILITIES OF ENTERPRISE ARMENIA:** Extensive and practical guidelines on how to build operations and improve the overall strategy and structure of Enterprise Armenia have been provided. Progress here demands government approval for adequate staff and financial resources to enable Enterprise Armenia to compete effectively for international investment.

Enhancing staff skills, installing best-practice systems for monitoring contact with investors, engaging in much more direct contact with existing and prospective investors, and building an organizational culture that addresses investor needs are crucial areas for action as outlined in this chapter.

Enterprise Armenia has made good progress in establishing the organization and undertaking activity in the short period of its existence. However, it is strongly recommended that it should move urgently to a more strategic and advanced level of action in line with best practice.

## **6. INVESTMENT REFORM ACTION PLAN**

The Investment Reform action plan defines reform priorities and sets forth concrete activities for the short and medium term. The action plan proposes the list of the activities for implementation of the recommendations articulated in the chapters relating to investment policy and promotion, incentives, and institutional structures. The action plan formulates activities for GOAM, listing the relevant state institutions and timelines for the implementation.

The Action Plan should ideally be seen as a whole-of-government initiative under which all government departments and agencies work together to deliver on the agreed action points for each year. It can serve as a focus for concerted, cross-government action to strengthen FDI and the enterprise sectors in Armenia.

By taking resolute action to launch the Investment Reform Action Plan to boost FDI and private sector development, the Government can create conditions to promote export-oriented economic growth and investment and thereby achieve progress and improve living standards.

A coordination mechanism for implementation should ensure a high-level political buy-in and oversight, whole-of-government engagement, and the establishment of semi-annual targets with a robust monitoring system. These are important steps towards addressing gaps that undermine successful policy implementation.

# CHAPTER I. ARMENIA'S INVESTMENT PERFORMANCE

This chapter analyzes the pattern of FDI in Armenia on the basis of gross capital formation (GCF), gross and net FDI inflows, and export performance. Export performance was reviewed since FDIs are generally made in export-oriented sectors. Furthermore, among other indicators, the economic complexity index developed by Harvard University's Growth Lab<sup>4</sup> was applied for both Armenia and peer countries.

The Government of Armenia's Program for 2021-2026 has set ambitious investment targets for Armenia, aiming to increase the GCF/GDP ratio to 25 percent and net FDI/GDP ratio to 6 percent. These should be accompanied by diversification of exports and increased economic complexity.

## I.1. OVERVIEW OF ARMENIA'S INVESTMENT PERFORMANCE

Over the past several years, Armenia has introduced several measures to improve its overall investment and business climate. However, the country still struggles to attract investments from local and foreign sources, a trend that goes back years.

Armenia's GCF<sup>5</sup> in nominal Armenian drams (AMD), which can be a proxy to measure the volume of investment, registered a 13 percent decline between 2012 and 2016, dropping from AMD1.1 trillion in 2012 to AMD913 billion in 2016. Prior to the 2008 global financial crisis, GCF was one of the main contributors to Armenia's economic growth, with a 40.9 percent share in GDP in 2008.<sup>6</sup> The main source of GCF financing was foreign investments, mostly in residential construction projects. The downward trend in GCF started in 2009,<sup>7</sup> as a result of the 2008 global financial crisis, underlining Armenia's dependence on the remittance-financed non-tradeable construction sector.

Despite the government's efforts to improve the overall investment/business climate, the downward trend continued through 2012 until 2017 (figure 1.1). Following a 13 percent decline from 2012 to 2016,<sup>8</sup> Armenia managed to reverse the trend by launching large investment projects, such as the Amulsar Gold project, and by introducing policies to boost construction. These policies, announced in 2015, included an income tax refund equal to the amount of mortgage interest when purchasing newly-developed residences.<sup>9</sup> As a result, from 2017, capital formation started to grow (although with a drop in 2019) reaching AMD1.4 trillion in 2021.

In 2019, the upward trend in GCF was reversed with a 16 percent decline. Three main factors could be responsible for this. Firstly, after the 2018 changes in Armenia's political landscape and snap elections in December, businesses were reluctant to make investments until political uncertainties were resolved. For example, in 2019 nominal value of GCF of non-financial corporations fell by around 28 percent compared with 2018.<sup>10</sup> Secondly, mass protests against the Amulsar Gold project blocked access to the project site and led to an investment freeze by the company and project

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<sup>4</sup> This economic complexity index indicates how diversified and complex the country's export basket is

<sup>5</sup> Gross capital formation (GCF) is a proxy for investment; however, it should be noted that "investment" is a broader concept; for example, it also includes investment in financial assets, which is not included in GCF

<sup>6</sup> [Statistical Committee of the Republic of Armenia, Database, National Accounts](#) (accessed 18.05.2022)

<sup>7</sup> [World Bank database](#)

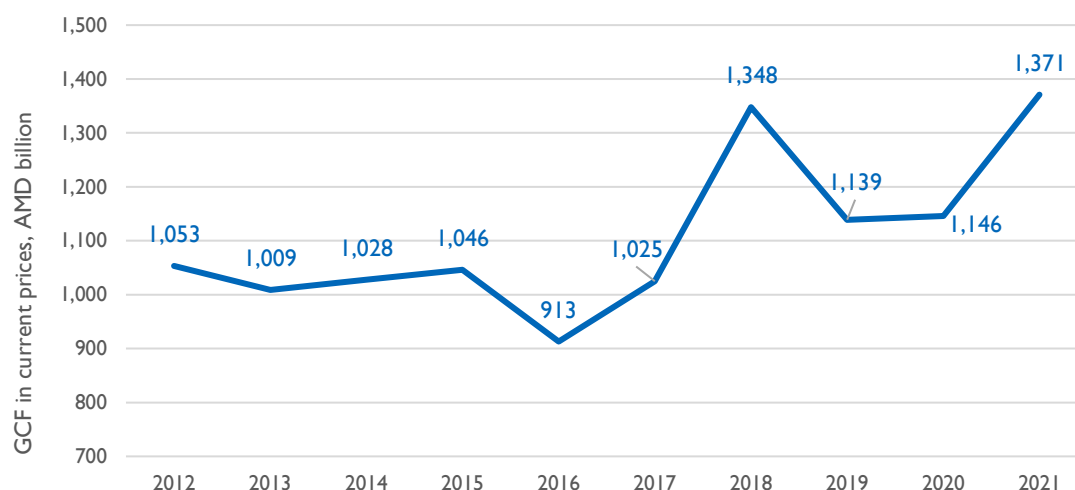
<sup>8</sup> Since 2012, GCF was calculated according to methodology of The System of National Accounts 2008, because of that the data from previous period is not comparable with the data published before 2012. Because of this, the 2012-2021 period is discussed here

<sup>9</sup> [No. 205-N decision of the RA Government on "Establishing the procedure of income tax refund to hired employees, individual entrepreneurs and notaries equal to the amount of interests paid for mortgage loans."](#) February 19, 2015 (accessed 12.04.2022)

<sup>10</sup> [Statistical Committee of the Republic of Armenia, Database, National Accounts](#) (accessed 18.05.2022)

investors. Thirdly, there was a significant decline in public expenditure on the construction of roads by 33 percent in 2019.<sup>11</sup>

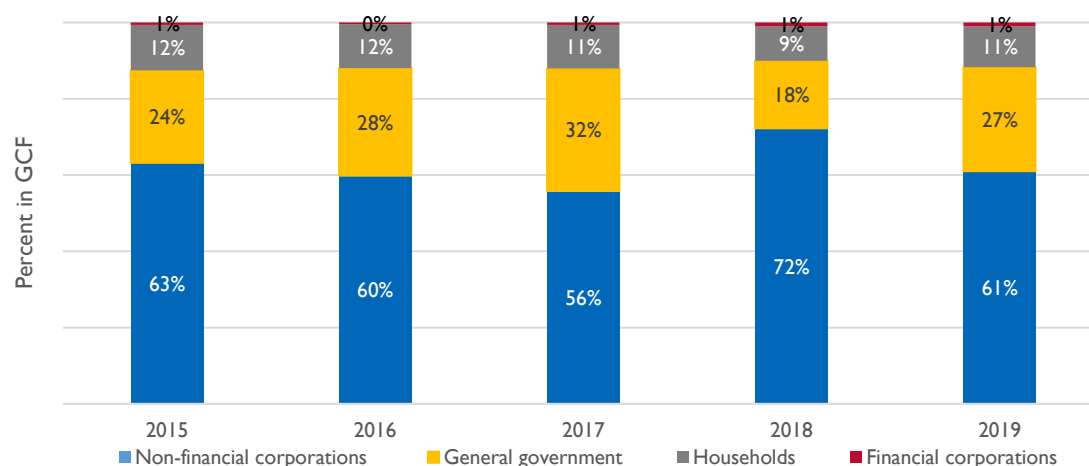
**FIGURE I.1: GROSS CAPITAL FORMATION IN ARMENIA, 2012-2021**



Source: Statistical Committee of the Republic of Armenia.

A sector breakdown of GCF (FIGURE I.2:) shows that private investment component is dominant with an average annual 62 percent share, followed by government with 26 percent share, and households (this typically includes land, other property improvements).

**FIGURE I.2: GCF IN ARMENIA BY INSTITUTIONAL SECTORS, 2015-2019**

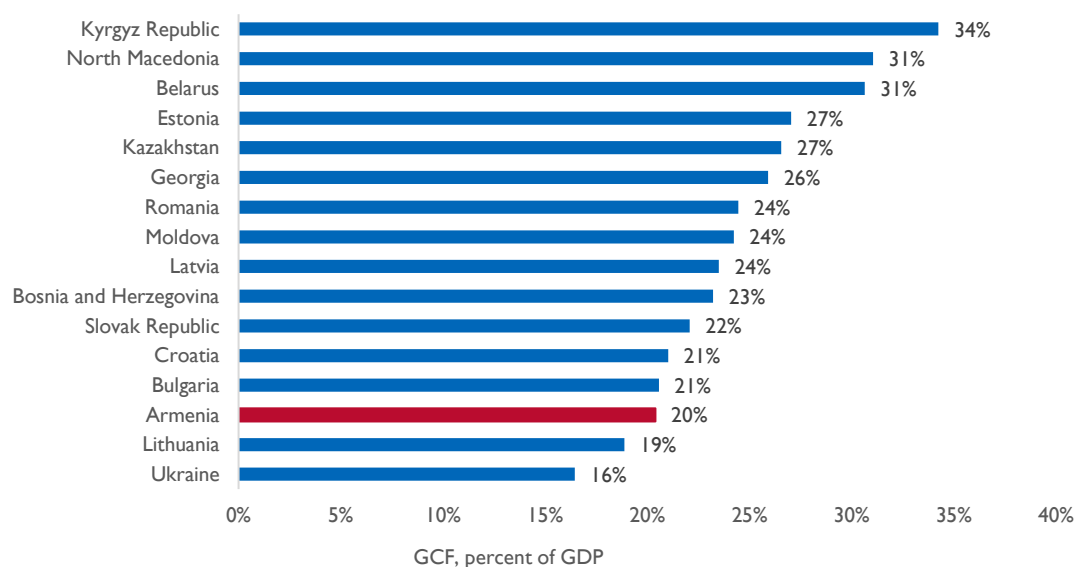


Source: Statistical Committee of the Republic of Armenia.

Despite the Government's efforts to increase capital formation in the country, Armenia is behind many comparator economies. As figure I.3 demonstrates, among 15 selected countries, only in two countries, Lithuania (19 percent) and Ukraine (16 percent), is the share of GCF in GDP less than in Armenia. In Armenia, during 2012-2020, the average annual share of GCF in GDP equaled 20 percent, which was significantly less than in North Macedonia (31 percent), Estonia (27 percent), or Georgia (26 percent).

<sup>11</sup> Armenian Center for Socio-Economic Studies (ACSES), "[10 facts about the budget performance of Armenia in 2020. Capital expenditures \(part 2\)](#)" (ARM), 07/06/2021

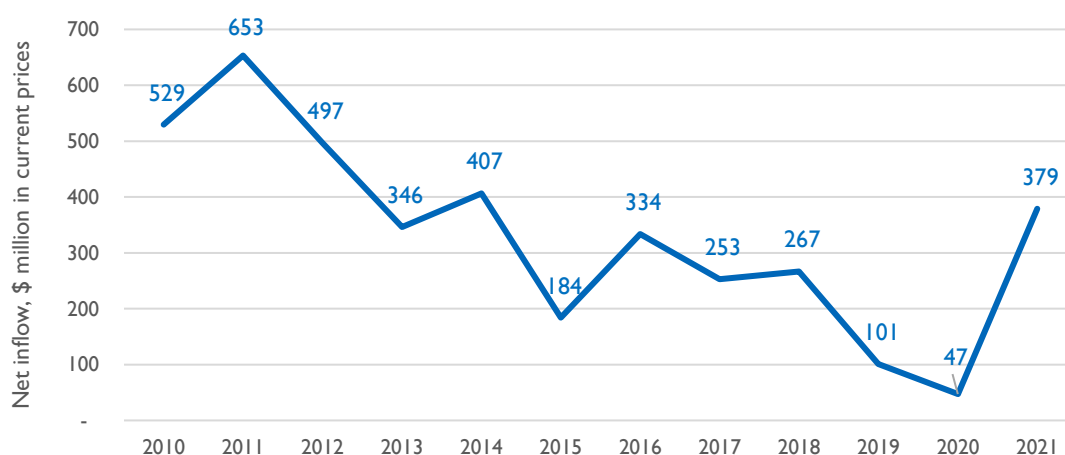
**FIGURE I.3: AVERAGE ANNUAL SHARE OF GCF IN GDP IN ARMENIA AND SELECTED COUNTRIES, 2012-2020**



Source: WB Databank.

Similarly, Armenia's performance in attracting FDI is quite poor. Net inflow of FDI has been declining since 2016 (figure I.4). Additionally, in 2020, investment activity was negatively affected by COVID-19 restrictions. This was partially addressed by the government's anti-crisis measures, including the program to subsidize interest rates for investment projects in certain sectors<sup>12</sup> and accelerated depreciation allowance for newly-acquired fixed assets,<sup>13</sup> In 2020, net inflow of FDI equaled \$47 million, 53 percent less than in 2019 (\$101 million), which was already significantly lower than the 2018 level (\$267 million).

**FIGURE I.4: NET INFLOW OF FDI IN ARMENIA, 2015-2021**



Source: WB Databank.

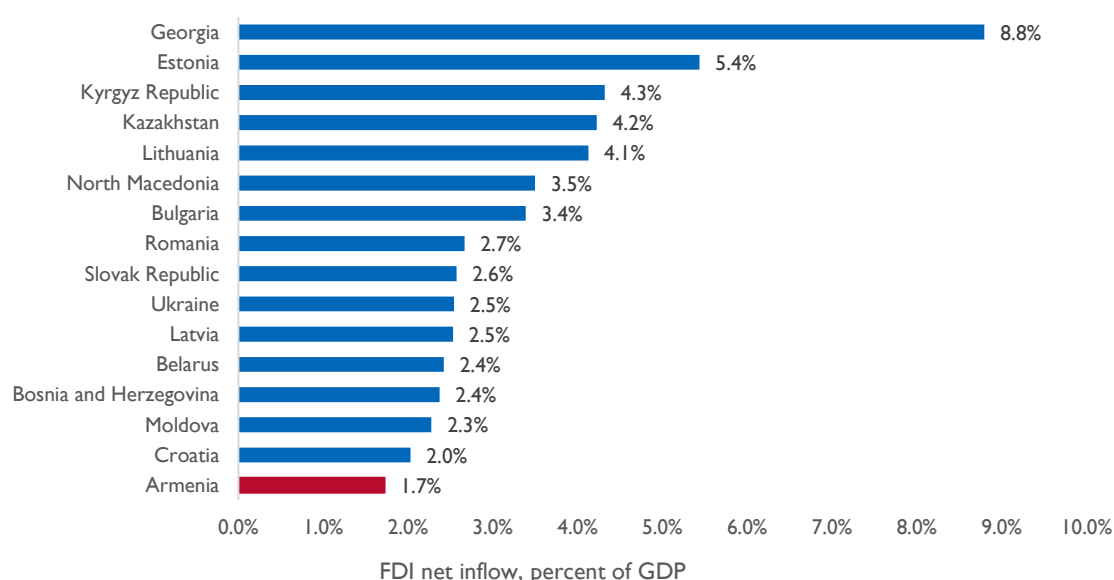
Armenia underperforms in attracting FDI, compared with regional competitors like Georgia and other selected peer countries. In fact, Armenia's FDI net inflow as percentage of GDP is the lowest

<sup>12</sup> RA Government, Programs to address the economic impact of COVID-19 (accessed 18.05.2022)

<sup>13</sup> The law on making amendments in the tax code of the Republic of Armenia, adopted on 01.06.2020 (accessed 18.05.2022)

among the 15 selected countries (figure 1.5). The average annual FDI net inflow as percentage of GDP in the 2015-2020 period was 1.7 percent in Armenia, while it was 8.8 percent in neighboring Georgia and 4.3 percent, 3.5 percent, and 2.3 percent respectively in other landlocked countries such as Kyrgyz Republic, Northern Macedonia, and Moldova. There can be several reasons for that. For example, despite the recognized improvements in the business climate, obstacles to investment remain in the form of corruption and entrenched business interests, including political or business motivated use of customs and tax inspections, rent-seeking and inefficiencies in the judiciary, and unpunished anti-competitive business practices.<sup>14</sup>

**FIGURE 1.5: AVERAGE ANNUAL FDI NET INFLOW AS PERCENTAGE OF GDP IN ARMENIA AND SELECTED COUNTRIES, 2015-2020**



Source: WB Databank.

However, in 2021, gross FDI inflows in Armenia registered the highest value in the last six years (\$761 million) with a 53 percent increase from the year before (figure 1.6). The main FDI-attracting sectors include electricity and gas supply with 62.6 percent of total FDI inflow in 2021 (\$476 million), mining (16 percent/\$122 million) and services (12.3 percent/\$94 million).

In the last six years electricity and gas supply sector attracted more than 65 percent of total FDI in Armenia. This is explained by two circumstances:

1. The vast majority of large enterprises in these sectors are companies with foreign participation/ investments (mainly Russian) that carry out large-scale investment projects including with retained (reinvested) earnings. For example, Electric Networks of Armenia Closed Joint Stock Company (CJSC) is a company with foreign participation, its retained earnings in 2016-2020 grew by around AMD48 billion,<sup>15</sup> a part of which (in proportion to foreign participation) is considered foreign investment.
2. Over the last few years, several new large greenfield investment projects were launched in the sector, some of which are financed again by FDI. For example, Armpower CJSC, the owner of

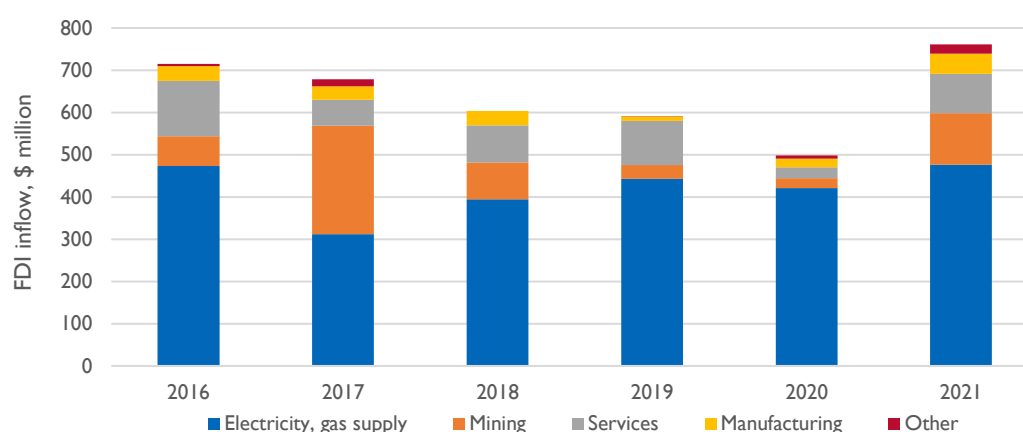
<sup>14</sup> UNCTAD, “[Investment Policy Review: Armenia](#)”, 2019 (accessed 12.04.2022)

<sup>15</sup> “Electric network of Armenia” CJSC, 2015, 2020 annual report <https://rb.gy/k6mxca> (accessed 18.05.2022)

new power unit of the Yerevan Thermal Power Plant, being a company with foreign participation only in 2019-2020, received around AMD40 billion FDI as stock replenishment.

**Mining is another major FDI sector in Armenia.** In 2016-2021, the sector accounted for more than 15 percent of FDI inflows. The contribution of this sector to the 53 percent FDI growth in 2021 was nearly 20 percentage points. FDI growth in this sector in 2021 was due to the sale of 60 percent of shares of the Zangezur Copper and Molybdenum Combine (ZCMC) CJSC to foreign investors<sup>16</sup> and the high prices of metals, which allowed for a large redistributed profit for that year.<sup>17</sup> However, because of the continuing opposition and protests against mining activities in Armenia, investments in mining declined in 2018 and 2019.<sup>18,19</sup> While investors in the electricity and gas sector are mainly market-seeking/strategic asset-seeking, in mining investments, they are natural-resource seeking.<sup>20</sup>

**FIGURE I.6: GROSS INFLOW OF FDI TO THE REAL SECTOR OF ARMENIA BY SECTORS, 2016-2021** <sup>21</sup>



Source: Statistical Committee of the Republic of Armenia.

As with sectors, the origins of FDI are also quite concentrated. Russia is the largest foreign investor in Armenia, with a relatively stable share over the last years (figure I.7). In 2016-2021, more than 61 percent of FDI in Armenia came from Russia. In 2021, FDI inflows from Russia totaled \$512 million, or 67.3 percent of FDI inflows, up from almost 50 percent in 2016 (\$356 million). It is worth mentioning that in 2020 and 2021, due to COVID-19, post-war instability, and the exit of German Cronimet mining company from the Armenian market, the Russian share increased even further. Russia mainly invests in Armenia's electricity, natural gas supply, and telecommunications sectors.

Armenia's second largest investor is Germany with \$95 million of FDI in 2021. From 2017 to 2021, Germany's share in FDI inflows increased from 4.4 percent (\$30 million) to almost 13 percent (\$95 million). In the past, Germany's FDI was concentrated in the mining sector. In particular, until 2020,<sup>22</sup> the German Cronimet Mining AJ was a major shareholder (60 percent) in one of the biggest companies in Armenia, Zangezur Copper and Molybdenum Combine (ZCMC) CJSC.

<sup>16</sup> Azatutyun, [The government of Armenia has become the co-owner Zangezur Copper-Molybdenum Combine](#), (accessed: 18.05.2022)

<sup>17</sup> [London metal exchange, Copper prices](#) (accessed 18.05.2022)

<sup>18</sup> Hetq media, [Amulsar Uncertainty Continues: A Local Activist and Diaspora Armenians Share Their Concerns](#), November 15, 2019

<sup>19</sup> Azatutyun, [Production Halted at Armenian Copper Mine](#), January 30, 2018

<sup>20</sup> According to John Dunning, there are four types of FDI based on the motivation of investors, <https://rb.gy/owwku1>, (accessed 18.05.2022)

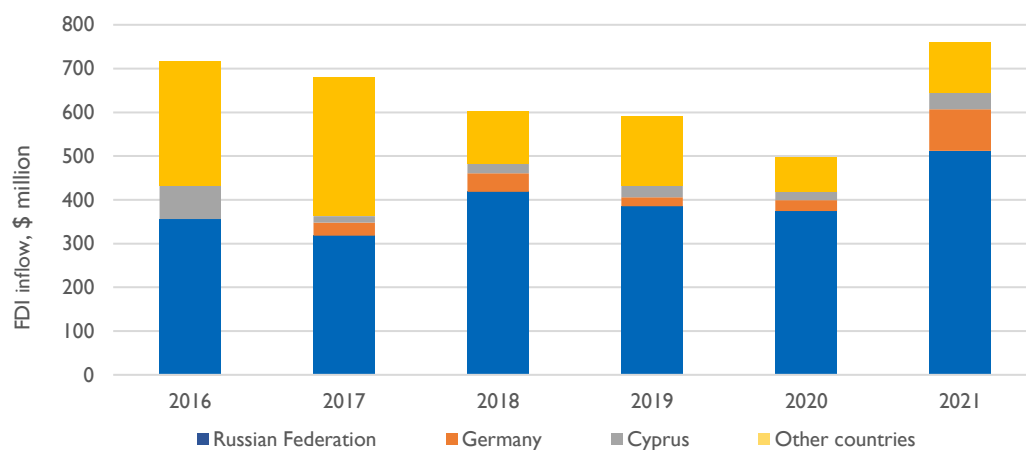
<sup>21</sup> The Central Bank of Armenia average annual USD/AMD market exchange rate is used for currency conversions

<sup>22</sup> ZCMC [Financial report](#), 2020

Another large share (almost 33 percent or \$223 million) of FDI came from Jersey in 2017. This was from Lydian International Limited, a gold mining company that owns the Amulsar Gold Project.

Other foreign investors in 2021 included Cyprus (5 percent), Italy (5 percent), and Argentina (4 percent).

**FIGURE 1.7: GROSS INFLOW OF FDI TO THE REAL SECTOR OF ARMENIA BY COUNTRIES, 2016-2021**<sup>23,24</sup>



Source: Statistical Committee of the Republic of Armenia.

Another indicator used for the assessment of Armenia's largest investors is the gross FDI flows. As figure 1.8 shows, Russia accounts for almost 50 percent of total FDI flows, or \$5.2 billion, as of end 2021, followed by France (9 percent or \$955 million), and Germany (6 percent or \$572 million). Other major investors in Armenia's economy are Argentina (4 percent or \$355 million), Cyprus (3 percent or \$278 million), Luxembourg (3 percent or \$278 million), and the U.S. (3 percent or \$261 million).

**FIGURE 1.8: GROSS FDI FLOWS INTO ARMENIA BY COUNTRIES AS OF THE END OF 2021,**<sup>25</sup> \$ MILLION



Source: Statistical Committee of the Republic of Armenia.

<sup>23</sup> The Central Bank of Armenia average annual USD/AMD market exchange rate is used for currency conversions

<sup>24</sup> The FDI inflows from other countries in 2016 include FDI from Luxembourg and Great Britain (14.3 percent and 9.6 percent of total FDI inflow that year, respectively). FDI inflows from other countries in 2017 include FDI from Jersey, which accounted for 32.9 percent of total FDI inflows that year

<sup>25</sup> Gross FDI flows include FDI flows from 1988 until the end of the 2021



In summary, FDI in Armenia is dominated by “market-seeking and/or strategic asset-seeking investments”, predominantly in the electricity and gas-supply sectors. The number of countries that bring investments to Armenia is very limited with Russian investments ahead of all others.

## 1.2. OVERVIEW OF ARMENIA'S EXPORT PERFORMANCE

Export and access to foreign markets are important in attracting FDI to standard industry sectors such as manufacturing, mining, and agribusiness. Armenia is a landlocked country, with a population of 3 million<sup>26</sup> and GDP of \$13.9 billion.<sup>27</sup> Two of its four borders with neighboring countries are closed. This makes the country less attractive to foreign investors.

As an EAEU member country, Armenia trades without tariffs with other EAEU members, Russia, Belarus, Kazakhstan, and Kyrgyz Republic, which together have a population of 181 million and GDP of \$2.1 trillion.<sup>28</sup> An analysis of 2012-2021 merchandise trade between EAEU member countries reveals that while the EAEU membership contributed to the growth of exports to member countries, it led to higher geographical concentration. Exports from Armenia to EAEU countries increased more than 2.7 times since it joined the EAEU, while total exports grew almost twofold. The share of EAEU countries in merchandise exports from Armenia has reached 29.4 percent.

Until January 1, 2022, Armenia was a beneficiary of the EU's Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) scheme, which resulted in the launch of several investment projects (efficiency-seeking investments) directed at the EAEU market. Some examples are Rusal's investment in Kanaker Aluminum Plant<sup>29</sup> and investments in the “Gloria” sewing factory in Vanadzor. However, the annual average growth rate of Armenia's exports to the EU was less than 3 percent during 2012-2021, and the EU's share in the total merchandise export from Armenia in 2021 was 22 percent.

Armenia still benefits from preferred GSP rates in the U.S., Canada, Switzerland, and Norway. However, opportunities provided by these countries are not fully utilized. For example, exports to Switzerland grew more than five-fold in 2012-2021. However, 79.9 percent of exports were of copper concentrate (HS<sup>30</sup> 2603 00), with the standard tariff rate of 0 percent; thus, the advantages offered by GPS have not been used.

Although, over the past years Armenia has been committed to diversifying exports, merchandise exports continue to be resource intensive, dominated by metal ores and concentrates, with a limited range of trading partners.

In 2021, Armenia's exports of goods totaled \$3 billion (6.2 percent of which was re-export), the highest level since the 1990s (figure 1.9). In 2021, exports increased by over 19 percent compared with the previous year. However, the export structure and complexity level did not change. Metal ores and concentrates (mostly copper) accounted for 31 percent of Armenia's total merchandise export in 2021, or \$923 million, followed by alcohol (9.6 percent, HS 2203-2209, mostly brandy) and cigarettes (8.3 percent, HS 24). Although Armenia's export of HS 4-digit products is not

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<sup>26</sup> Statistical Committee of the Republic of Armenia, [Number of permanent population of the Republic of Armenia as of 1 January in 2022](#)

<sup>27</sup> Calculated by authors based on average annual USD/AMD exchange rate and GDP at market prices, <https://rb.gy/f3qlzp> (accessed 18.05.2022)

<sup>28</sup> “Объем ВВП ЕАЭС составил \$2 трлн в 2021 году”, ЕАЭС, <https://rb.gy/qwoh9g> (accessed 18.05.2022)

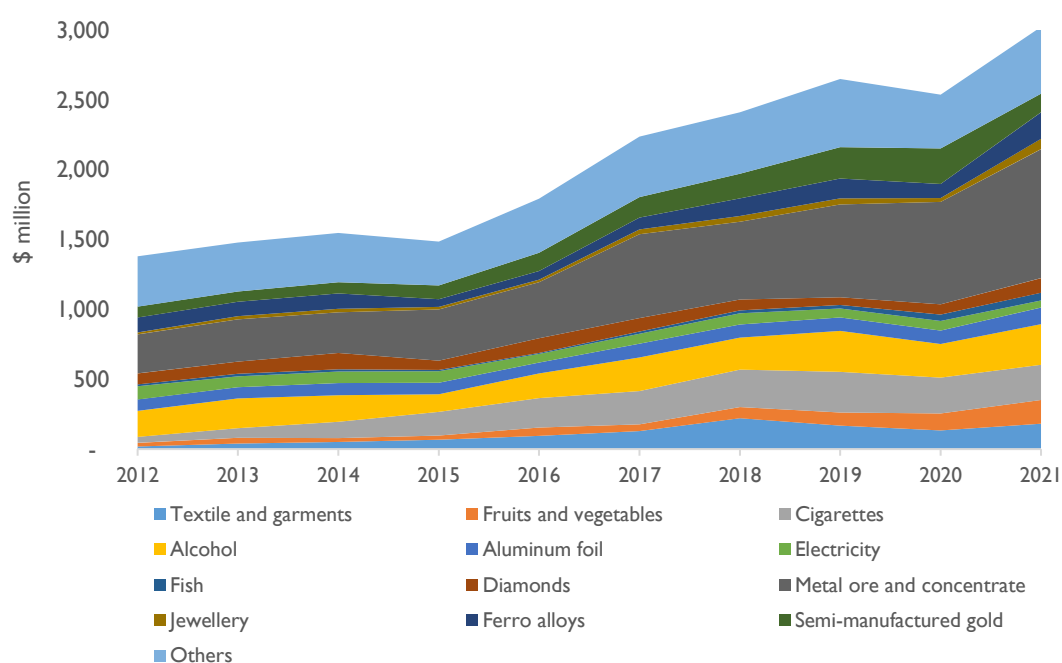
<sup>29</sup> [Welcome speech of the Prime Minister of the Republic of Armenia Andranik Margaryan on the occasion of the launch of "Armenal](#), after its modernization.” October 26, 2006 (accessed 18.05.2022)

<sup>30</sup> Harmonized system

concentrated (Herfindahl–Hirschman index=935). These three product groups together accounted for nearly half of the total exports from Armenia.

The exports of metal ores and concentrates from Armenia more than tripled between 2012 and 2021, from \$279 million in 2012 to \$923 million in 2021. In 2012-2021, the average annual share of metal ores and concentrates of total merchandise exports amounted to 24 percent. In this period, the share of the product group increased from 20 percent to 31 percent. Copper ore is the main export product in this group (with an 83 percent share in 2021), as well as of the total merchandise exports of the country (with a 25 percent share in 2021) and, over the years, has become the main driver of export growth in Armenia. In 2021, exports of copper ore totaled \$769 million, a 27 percent increase from the year before. This impressive growth however was driven by the increase in prices of copper in international markets. In fact, in 2021, the volume of copper ore exports decreased by 16 percent, or by 80,394.4 tons.<sup>31</sup>

**FIGURE I.9: ARMENIAN EXPORTS BY PRODUCT GROUPS, 2012-2021**



Source: Statistical Committee of the Republic of Armenia.

The exports of alcohol from Armenia registered a 56 percent growth between 2012 and 2021, from \$87 million in 2012 to \$291 million in 2021. In 2012-2021, the average share of alcohol in total merchandise exports of the country was 11 percent. In this period, the share of the product group decreased from 14 percent to 10 percent. In 2020, the exports of alcohol declined by 18 percent due to the COVID-19 pandemic and related restrictions, but recovered in the next year, growing by 21 percent. Brandy is the main export product in this group with an 84 percent share in 2021. There are a limited number of companies with foreign investment in the manufacturing of alcohol beverages. However, one of those companies, Pernod Ricard, is the leader in the sector and has great influence on its development. The exports of cigarettes from Armenia grew by more than five times between 2012 and 2021, from \$42 million to \$252 million. In 2012-2021, the average annual share of cigarettes in total merchandise exports of the country was 9 percent. The share of the

<sup>31</sup> Armenian Center for Socio-Economic Studies (ACSES), "[Armenia's economy in 2021 in 5 charts](#)", February 25, 2022. (accessed 27.04.2022)

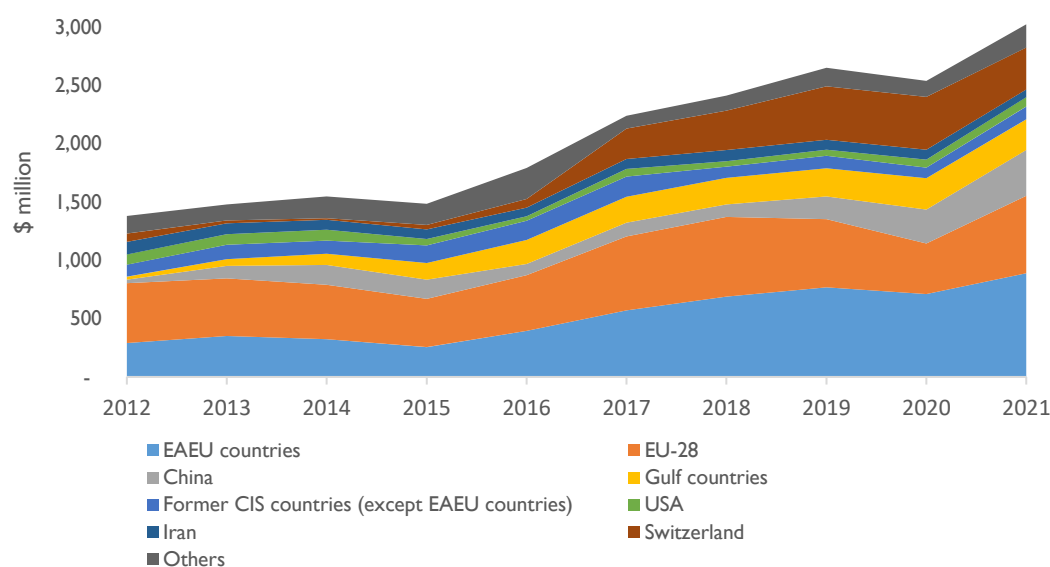
product group increased from 3 percent to 8 percent in 2021. Tobacco manufacturing has been one of the dynamic growing sectors of the country over the last decade. However, in the last two years, exports of cigarettes have been declining. In 2020, exports fell by 11 percent due to COVID-19 and in 2021, exports fell by 2 percent. Cigarette producing companies in Armenia are mainly local investments.

In 2012-2021, textiles and garments registered an impressive ten-fold growth (from \$19 million to \$183 million), becoming the “rising star” of Armenia’s exports. In 2021, the share of textile products in the total merchandise exports of Armenia was to 6 percent. Typically, Armenian textile producers are companies with local investment, which work with well-known European brands through contract manufacturing/tolling arrangements. At the same time, it is worth mentioning that over the last few years, several local brands have emerged, which can provide a sustainable development perspective for the sector in the medium to long term.

In 2021, Armenia’s largest merchandise export markets were the EAEU (\$889 million or 29 percent of exports), the EU (\$664 million or 22 percent), China (\$393 million or 13 percent), and Switzerland (\$360 million or 12 percent).

Exports to the EAEU countries registered more than double growth between 2012 and 2021, from \$290 million to \$889 million. The share of the EAEU countries in Armenia’s exports also increased over the last decade, from 21 percent in 2012 to 29 percent in 2021. Exports to the EAEU countries have grown at a faster pace since 2015, when Armenia joined the economic union. Russia accounts for 95 percent of Armenia’s total merchandise exports to the EAEU (\$847 million). The EAEU countries mainly import beverages, manufactured food products, and primary agricultural products from Armenia.

**FIGURE I.10: EXPORT OF ARMENIA BY COUNTRIES, 2012-2021<sup>32</sup>**



Source: Statistical Committee of the Republic of Armenia.

<sup>32</sup> EU-28 includes Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden, UK. EAEU includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia

Exports to the EU countries registered a 30 percent growth between 2012 and 2021, from \$523 million to \$664 million. From 2009 to 2022, Armenia benefitted from the EU's Special Incentive Arrangement for Sustainable Development and Good Governance “GSP+”, which granted duty reductions on exports to the EU on 6,200 tariff lines.<sup>33</sup> This may have been one of the drivers of the growth in exports.

In contrast to the EAEU countries, the share of the EU countries in merchandise exports declined over the last decade, from 37 percent in 2012 to 22 percent in 2021. The EU mainly imports textile products, aluminum foil, and metal ores and concentrates from Armenia.

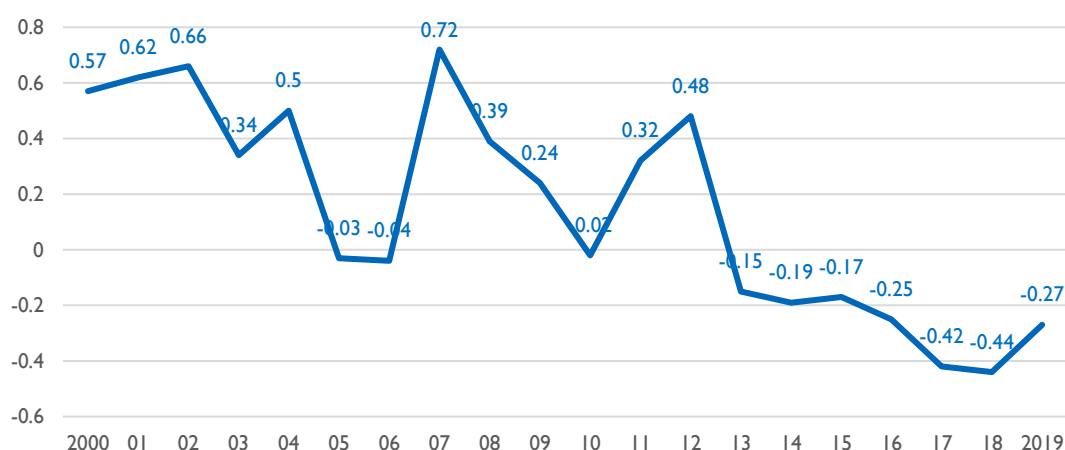
Exports to China increased more than ten-fold between 2012 and 2021, from \$31 million to \$393 million. China's share in Armenia's exports increased over the last decade, from 2 percent in 2012 to 13 percent in 2021. China mainly imports copper ore from Armenia.

Exports to Switzerland registered a five-fold growth between 2012 and 2021, from \$71 million to \$360 million. Switzerland's share in Armenia's exports increased over the last decade, from 5 percent in 2012 to 12 percent in 2021. Switzerland mainly imports gold from Armenia.

In recent years, the Persian Gulf has provided one of the fastest growing export markets for Armenia. In 2012-2021, RA exports to this destination increased ten times, but this is highly concentrated on tobacco products (HS 24), accounting for 76 percent of exports.

The economic complexity of exports continues to be problematic. Armenia's Economic Complexity Index (ECI), which indicates how diversified and complex the country's export basket is, has deteriorated over the last decades (figure 1.11). While, in 2000, the country's ECI was +0.57, in 2019, it was -0.27 (a drop by 0.84 units). This is due to the increase in the share of least complex products in total exports (fruits, vegetables, copper concentrate, and tobacco). For example, in 2019, the complexity index of tomato production was equal to -1.21, the complexity index of apricot was -1.19, the index for tobacco was -0.863, and that of brandy equaled 0.609.

**FIGURE 1.11: ARMENIA'S ECONOMIC COMPLEXITY INDEX, 2000-2019**



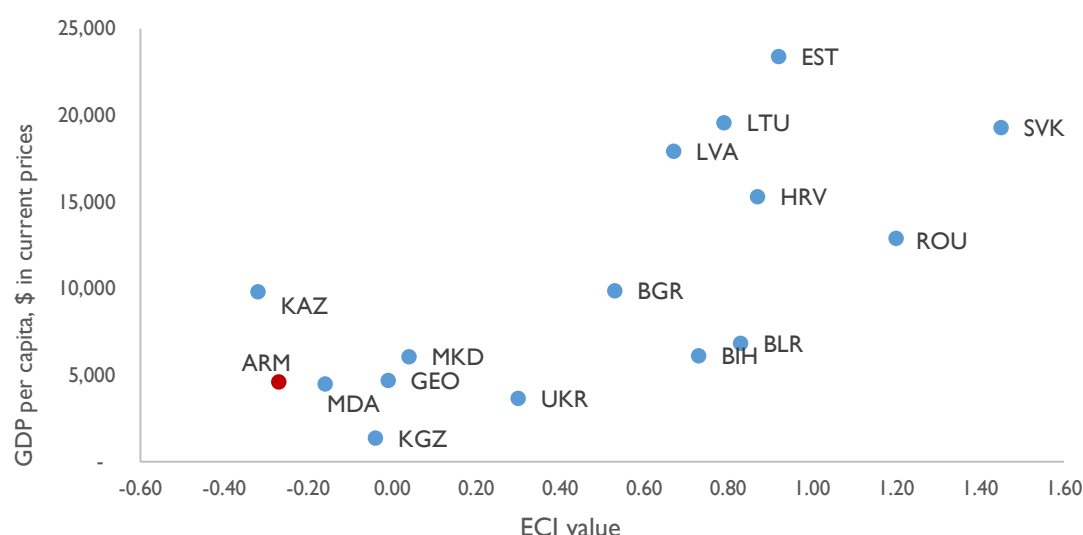
Source: *The Atlas of Economic Complexity*, Harvard Growth Lab.

From 2000 to 2019, Armenia's ECI ranking dropped by 41 positions. While in 2000, the country ranked 35 among 133 countries, in 2019 it ranked only 76. Armenia is behind all 15 selected

<sup>33</sup> Ministry of Economy of the Republic of Armenia <https://bit.ly/3rTUBP0>

comparator countries in ECI ranking, except for Kazakhstan. Armenia ranks 18 positions lower than North Macedonia, 47 positions lower than Estonia, and 62 positions lower than the Slovak Republic. As **FIGURE I.12:**figure I.12 shows, among selected countries, generally, the higher the GDP per capita, the higher that country ranks in ECI. However, Armenia is behind countries with similar or lower GDP per-capita levels such as Georgia (-0.01), Moldova (-0.16), and Kyrgyz Republic (-0.04). The Government of Armenia has set up a policy direction to gradually increase the economic complexity of exports to ensure sustainable economic growth over the coming years.

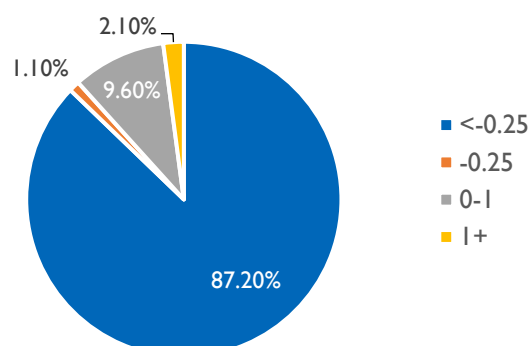
**FIGURE I.12: ECI RANK AND GDP PER CAPITA OF SELECTED COUNTRIES, 2019<sup>34</sup>**



Source: The Atlas of Economic Complexity for ECI, WB database for GDP per capita.

An analysis of the 2021 complexity structure of exports of products of Armenian origin reveals that commodity groups with -0.25 and lower complexity index account for 87.2 percent of exports, 1.1 percent from commodity groups in the range of (-0.25;0) and 9.6 percent from commodity groups in (0;1) range. Commodity groups with higher than 1 index value account for only 2.1 percent of exports.

**FIGURE I.13: THE DISTRIBUTION OF EXPORT OF PRODUCTS OF ARMENIAN ORIGIN BY PRODUCT COMPLEXITY INDEX, 2021<sup>35</sup>**



Source: The Atlas for economic complexity, UN Comtrade.

<sup>34</sup> Country names are represented by ISO country codes as follows: Armenia (ARM), Belarus (BLR), Bulgaria (BGR), Bosnia and Herzegovina (BIH), Croatia (HRV), Estonia (EST), Georgia (GEO), Kazakhstan (KAZ), Kyrgyz Republic (KGZ), North Macedonia (MKD), Moldova (MDA), Latvia (LVA), Lithuania (LTU), Slovak Republic (SVK), Romania (ROU), Ukraine (UKR)

<sup>35</sup> Calculated by authors based on the data 2019 product complexity index and 2021 Armenia exports

In summary, over the last decade, merchandise exports from Armenia registered impressive growth; however, the geography, commodity structure and product complexity continue to be problematic.

Global FDI trends are showing a revival in 2022.<sup>36</sup> Notwithstanding the continuing impact of COVID-19, the economic recession of recent years, supply chain disruptions and production shortfalls, and major geopolitical conflicts, the experience of many countries, mainly developed countries at this stage, shows that investors are building new strategies and seeking a competitive advantage through new investment projects and new locations. Armenia has achieved commendable success in attracting ICT investment projects with significant economic contribution, exports, and employment benefits for Armenia. However, the above data, show clearly that Armenia compares unfavourably with peer countries in its overall performance on investment. Armenia needs to compete more strongly and effectively for FDI. This report indicates the essential policy and promotion strategies, structures, and activities that need to be put in place to positively transform FDI levels in Armenia.

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<sup>36</sup> fDi Markets

## CHAPTER 2. INVESTMENT POLICY FRAMEWORK

This chapter addresses the policy and legal and regulatory environment for investors. It sets out a key part of the overall “investment roadmap” for Armenia, which is elaborated in other chapters. It draws on the practical experience of various countries as well as the well-documented research on “best practice” in investment policy, by, for example, the WB, UNCTAD, OECD and a multitude of other institutional and academic organizations.

Armenia does not have a clearly stated national investment policy that reflects important policy and program actions taken by the government to compete and achieve FDI levels that match peer countries. Investment policy needs to be publicly stated, regularly reviewed for progress, and adapted to the changing global investment environment. The MOE is responsible for national investment policy and should drive its development, implementation, and assessment of investment policy and national strategy.

The following approach is used in this chapter:

- An analysis of the Program of the Government of the Republic of Armenia (GOAM) 2021-2026 and statements on the vision and goals for FDI in Armenia. The vision and broad goals on investment policy and promotion are important to shape and propose a new policy.
- A review of the MOE’s and Enterprise Armenia’s policy, strategy, reports, brochures, and websites and comparison with peer country policy and promotional material. Further comparisons on FDI policy and programs were made.
- A review of the OECD Policy Framework for investment and international indices and reports from UNCTAD, the WB, and international consultants. These provide comparative overviews on successful best practices in FDI policy and form the basis for recommendations on Armenia’s investment policy. In 2019, UNCTAD conducted an “Investment Policy Review” in Armenia and made numerous recommendations, which were reviewed for this chapter.
- A review of the Law on Foreign Investment in Armenia, and legal commentary on various aspects of the law, including comments by investors.
- Extensive views of the private sector and investors in Armenia, sourced from U.S. and European investor reports and meeting records (for example, European Business Association meeting with the Minister for Economy, 2021), international reports on Armenia (U.S. Department of State, 2021, UNCTAD Investment Policy Review, 2018), company reports, and case experiences. In addition, Enterprise Armenia conducted over 100 meetings for an aftercare survey with investors in mid-2021. This research provided useful insights into the priority issues of concern to investors, as well as positive case experiences.
- Finally, the practical experience of expert international consultants working with over fifty investment promotion agencies worldwide contributed to the assessments in this chapter.



## 2.1 CREATING THE FAVORABLE POLICY ENVIRONMENT FOR FDI AND MAXIMIZING ITS BENEFITS

The attraction of FDI and its growth in a country can drive economic and social transformation, with numerous benefits for society, and enhanced living standards. This is the experience of several small countries that compare in population size with Armenia. Given the competitive global environment for FDI, it is critical that all countries recognize the benefits of FDI and well-documented “best practices” of countries successful in promoting FDI. Each country must develop its own approach in line with national development policy and objectives. Typically, this comprises the interlinked components shown in figure 2.1.

**FIGURE 2.1: OVERALL POLICY AND PROMOTION FRAMEWORK FOR FDI**



Armenia has stated its ambition to attract increased FDI in its government program for 2021-2026.<sup>37</sup> Whilst it has not established a separate investment policy, it has taken numerous and successful steps to improve the business environment and support investors. This progress is confirmed by international indices<sup>38</sup> and is ongoing. Armenia’s investment and trade policy is relatively open, and foreign companies are entitled by law to the same treatment as Armenian companies. Armenia has achieved respectable rankings on some global indices that measure business climate. Armenia has declared and is implementing an “open door” policy towards investments. Liberalization of investment relations, the establishment of national policies that favor foreign investors, and proper protection of investments are at the core of Armenia’s investment policy approach. The establishment of the IPA, Enterprise Armenia, is a further statement of GOAM objectives and goals for FDI. All developed countries and the majority of developing and transition countries have established an IPA. Public expression of national goals and support for FDI in policy documents, and active participation in promotion activity by the government are vital messages to investors and Armenian society.

National policy on investment is typically a separate policy issued by the MOE or contained in other responsible ministry documents or is in a chapter in the national development policy document. It is an “umbrella” document that presents government-approved policies and objectives. It should set out the high-level vision and scope of actions to be taken. For example, continued improvement of the business environment, creation of high caliber jobs, availability of people for investment projects, human talent strengths, competitive locations for investors, partnerships with investors, fostering clusters and ecosystems, and innovations in pursuing new opportunities in promotion. It should be a public document available to all sections of society.

<sup>37</sup> <https://www.gov.am/files/docs/4737.pdf>

<sup>38</sup> [World Bank Group, Doing Business, Armenia](#)

The wider business environment for business development and investors is fundamental to attracting increased investment. It is again referred to here to emphasize the need for continued progress in removing obstacles and regulatory or legal hindrances in the environment and to highlight its importance. Enterprise Armenia has a key “best practice” role here in its policy advocacy work.

Armenia does not publish a separate investment policy document but states various aspirations and objectives for growth and investment in national development documents.<sup>39</sup> Its main goals are:

- Achieve an annual GDP growth rate of 7 percent
- Reduce unemployment rate to 10 percent by 2026
- Create an export-oriented, knowledge-based, and inclusive economy
- Increase investment volumes and productivity through a favorable business/investment environment
- Improve Armenia’s investment attractiveness by access to EAEU, EU, and Iranian markets
- Create the best, most flexible investment destination in the EAEU, and neighboring, and regional countries in terms of predictability and continuous improvement
- Ensure faster and more flexible processes for implementation of innovative, new knowledge-generating programs
- Establish simple procedures to attract highly-qualified foreign specialists
- Develop a strategy on intellectual property (IP) to create an investor-friendly environment
- Commit to EAEU, EU Comprehensive and Enhanced Partnership Agreement (CEPA), and EU Partnership provisions and cooperation
- Be competitive in international markets by producing high value-added goods and services.

Previous government documents have stated the objectives and goals of the investment policy, investment policy principles, and direction of policy reforms, action plan, and other elements. “The Concept Paper of the Investment Policy of the Republic of Armenia,” for example, stated actions as stated in this paragraph, but many of these have not been realized and this paper was repealed in

“Improvement of investment environment and legal framework, promotion of investment ... increased transparency of regulatory environment ... follow the principles of ‘Open Doors’ policy, with liberalization of investment activities, most favorable treatment of foreign investors, proper protection of investors and other advanced international practice ... actively try to attract foreign investment to achieve priority economic and social goals.”

Source: “The Concept Paper of the Investment Policy of the Republic of Armenia” (October 8, 2015).

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<sup>39</sup> Program of the Government of the Republic of Armenia 2021-2026

January 2022. The actions proposed in it will need to be examined and progressed in the context of a new investment policy.

In summary, the overall vision and welcoming of FDI in Armenia is endorsed by the Government. Many of the above-listed objectives relate to domestic and SME companies as well as FDI. FDI is expected to contribute to goals on “new knowledge-generating programs” and “high value-added goods and services” as well as “research, invention, and innovation.”<sup>40</sup>

Achieving the policy goals for FDI are primarily the responsibility of the MOE and Enterprise Armenia, in collaboration with a range of public and private sector institutions and organizations. Armenia needs to compete in a stronger way for internationally mobile FDI projects. Expressing the policy goals to achieve this is an important guideline for government and society. These should ideally be stated in the annual strategic plans of the ministry and the IPA.

Setting policy and promotion goals gives long-term vision and potentially short-term motivation and better understanding. Governments give a better focus and sense of direction for essential action by publicly stating goals. At the core for implementing all policies is to establish agreed objectives and targets, ensure implementation of action on meeting these targets, and monitor results and impact in the economy. Potential investment policy goals for GOAM consideration are recommended as follows:

**GOAL 1: SUSTAINED ENTERPRISE AND EMPLOYMENT:** Create and sustain high-quality enterprise and employment across all regions.

**GOAL 2: DEVELOP COMPETITIVE ENVIRONMENT FOR INVESTMENT:** Develop the most competitive business and regulatory environment for investment, productivity, and sustainable jobs.

**GOAL 3: LEGAL AND REGULATORY ENVIRONMENT:** Ensure that legal and business regulation facilitates investment and business development and provides Armenia with competitive advantages in global markets.

**GOAL 4: ARMENIA—LEADING IN INNOVATION AND R&D:** Seek to position Armenia as a regional and global innovation and R&D leader.

**GOAL 5: ARMENIA AS A LEAD COUNTRY IN THE WIDER REGION:** Set the ambition to become the leading country in the number of FDI projects attracted annually in the South Caucasus, Southeast Europe, and Central Asia regions (projects per capita).

**GOAL 6: NEW FDI PROJECTS:** Attract a minimum of at least ten new investment projects (including expansions and new business functions) in 2022 and 15-20 projects per year in 2023-2026 as measured by the annual UNCTAD World Investment Report series (WIR).

**GOAL 7: ARMENIA MATCHING SMALL EU COUNTRIES:** Demonstrate measurable annual progress in moving closer to the number of investment projects in small EU and former transition countries (for example, Estonia, Lithuania, Latvia and North Macedonia).

**GOAL 10: GROSS CAPITAL FORMATION:** Achieve a minimum 10 percent increase in capital investment per year by international investors over the period 2021-2026.

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<sup>40</sup> Ibid

**GOAL 11: EXISTING INVESTORS IN ARMENIA:** Promote/support a minimum of five expansion projects per year from existing FDI companies (for example, capital investment in expansion, new business functions, training, and R&D).

**GOAL 12: SUPPLIER COMPANIES AND LINKAGE:** Support at least three new linkage/supplier agreements for domestic companies supplying FDI companies per year during 2021-2026.

Armenia has specified goals and targets in its policies. However, the above goals and targets provide a more specific guideline checklist for consideration by the MOE and Enterprise Armenia in developing their strategic policy and plans on FDI. In addition, the importance of FDI policy in determining the level of FDI in a country underscores the need for countries to benchmark themselves against their peers; this is a priority task for the MOE/Enterprise Armenia. Benchmarking is not being done currently and instigating a system of benchmarking will inform the development of future policy on an annual basis.

The following chapters, and especially chapter 5, specify in more detail how the above-mentioned goals and targets can be achieved, based on best practice policy and promotion.

The MOE and Enterprise Armenia play a key lead role in implementing the Government's policies to stimulate the productive capacity of the economy and create an environment that supports new investment, new exports, and job creation and maintenance. A "Whole of Government" focus to deliver a supportive environment for enterprise and new investment requires a sustained cross-government focus on addressing challenges in competing for FDI. Through a strong partnership approach with government ministries, enterprise, representative bodies, and others, the MOE and EA can deliver a step-by-step change to the performance on FDI and enhance international competitiveness of manufacturing and services sectors.

## 2.2 INVESTMENT POLICY DIRECTIONS

The OECD Policy Framework for Investment interprets investment in its broadest sense and encompasses twelve themes such as investment policy, investment promotion and facilitation, trade policy, competition policy, tax policy, corporate governance, policies for enabling responsible business conduct, developing human resources for investment, investment in infrastructure, financing investment, public governance, and investment framework for green growth. Detailed guidelines and a toolkit are provided for analysis.

The focus in this document is on the "Investment Policy" direction of the PFI. It identifies six questions for judging the effectiveness of a country's investment policies and practices and forms an opinion on how well a country's investment policies perform vis-à-vis good practices. The PFI questions on investment policy relate to:

- Laws and regulations
- Non-discriminatory treatment for national and international investors
- Protection of property rights/expropriation<sup>41</sup> and land tenure
- Intellectual Property Rights

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<sup>41</sup> Ibid

- Contract enforcement and dispute resolution
- Investment treaty policy.

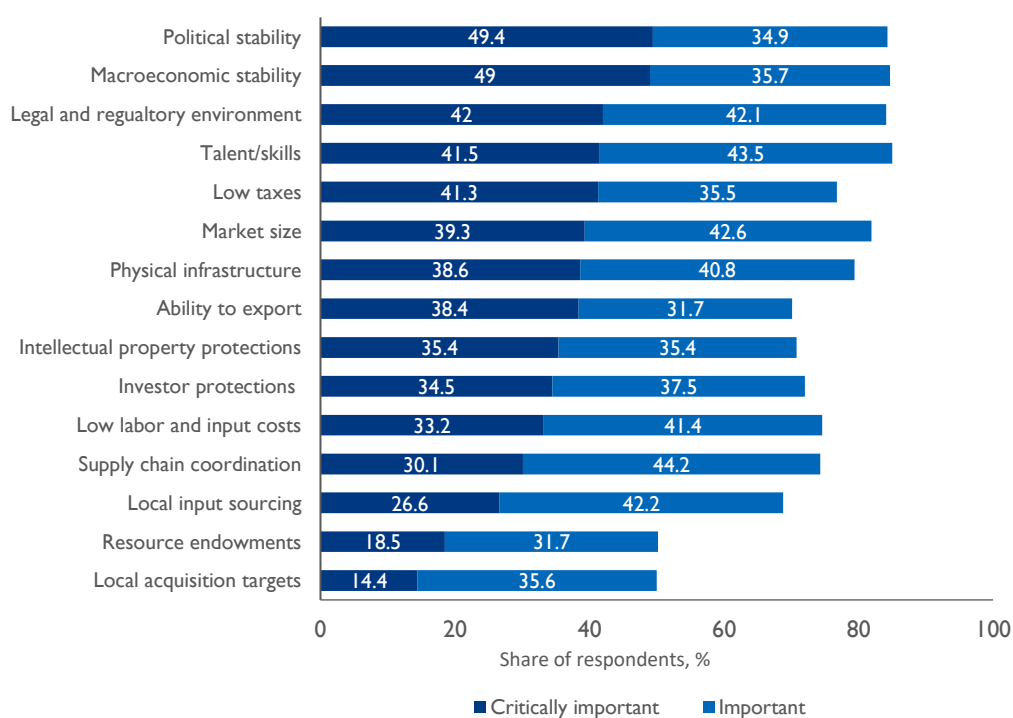
The OECD PFI questions are largely replicated in research and in-depth expert studies conducted by, for example, UNCTAD, the WB, and bilateral donors. The combination of these frameworks and expert studies describes best modern practice in investment policy and responds to a need for specific and practical implementation guidance, as revealed by the experience of many countries. They provide a basis for a summary cross check with Armenia’s legislative and policy framework. Overall, to reduce risks, governments need to remain committed to creating open and predictable environments for FDI. The sources of policy uncertainty that erode investor confidence are both international and domestic, and solutions at both levels are needed.

## 2.2.1 LEGAL AND REGULATORY ENVIRONMENT FOR INVESTORS

Armenia’s laws, regulations, and practices directly enable or discourage investment and that enhance the public benefit from investment. The quality of a country’s investment policies directly influences the decisions of investors, both domestic and foreign. This is evident from the Global Investment Competitiveness Report 2019/2020 (GIC), as shown in figure 2.2. In line with findings from the 2017 GIC Survey (WB 2018), 84 percent of respondents list the legal and regulatory environment as an “important” or “critically important” factor in their investment decisions.

**FIGURE 2.2: LEGAL AND REGULATORY ENVIRONMENT WAS IN THE TOP THREE FACTORS FOR FDI IN 2019**

How important were the following factors in your parent company’s decision to invest in a country?



Source: World Bank Global Investment Competitiveness Report 2019/2020<sup>42</sup> (computation based on 2019 GIC survey).

<sup>42</sup> World Bank Group: [Global Investment Competitiveness Report, 2019/2020](#)

The legal and regulatory environment is especially important for larger firms. On average, large firms rank it as one of their top investment considerations, according to this assessment.

The main legal act that regulates relations arising during acquisitions and investments by foreign nationals and investors, including consideration of national interests is the Law on Foreign Investments (Investment Law) adopted in 1994. It provides general provisions governing FDI, including entry rules and establishment procedures, guarantees on investment treatment and protection, as well as access to incentives.

A summary examination shows the legislation grants high standards of protection and guarantees to investors.<sup>43</sup> The Law on Foreign Investments grants national treatment of foreign investors by stipulating that “the legal regime related to foreign investments and the methods of their implementation cannot be less favorable than the regime governing the property, property rights, and investment activities of citizens, legal entities, and unincorporated enterprises of Armenia” (Article 6).

The Law declares a most favored nation regime, as well as the key rights and privileges for foreign investments, such as:

- Unrestricted access to any sector and geographic location within the country.
- Guarantees against changes in the legislation on investments for a five-year period.
- Exploitation of natural resources through concession contracts.
- 100 percent of property ownership (except land for individuals).
- Free and unlimited repatriation of property and profits.
- Unlimited currency exchange on market rates.
- No restrictions on personnel recruitment.
- Compensation for losses resulting from illegal actions by state authorities while performing their duties.
- Exemption from customs duties for goods that are imported for the purpose of paying up shares or increasing charter capital (the list of goods is established by the GOAM).

**ISSUES AND RECOMMENDATIONS ON THE LAW AND ITS DISSEMINATION:** Analysis and comparisons with best practice models show that the Law could benefit from some refining, additional clarity, and wider dissemination of the Law, as follows in table 2.1.

**TABLE 2.1: REVIEW OF INVESTMENT LAW ISSUES AND RECOMMENDATIONS FOR CONSIDERATION**

LAW ON IPA WEBSITE	Normal practice in IPAs would be to make the law available on an IPA website or provide links to it. This should ideally be done by Enterprise Armenia. It is not a legal issue but basically good investment promotion practice.
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<sup>43</sup> Summary examination undertaken by expert international consultants and ABEE team in Armenia

REFERENCE TO ENTERPRISE ARMENIA	As the national IPA dealing regularly with investors, it might be expected that the legislation would make some reference to the investment promotion agency. The key mandates and roles of investment promotion institutions should ideally be included in the law. Again, this is not a legal requirement, but is good practice in investment promotion and transparency.
INCENTIVES	No reference to incentives in the law. Incentives will come under other legislation but some connecting reference in this law would be appropriate. As with the above points, this is not a legal issue. It is essentially about better communications and linkages.
ARTICLE 8	This article refers to ‘Guarantees against nationalization and confiscation’. This should be considered in any future review and address possible indirect expropriation.
ARTICLE 11	Deals with “Guarantee regarding the export of property, profits (revenues), and other means related to foreign investment.” Guarantees given to freely export but they must be “legally gained as a result of payment for labor.” The phrase, “payment for labor.” could be misconstrued and prevent, for example, payments arising from market value increases in IPR or patents transferred. It warrants examination.
ARTICLE 22	Deals with IPR. It simply states it “shall be guaranteed in accordance with the legislation of the Republic of Armenia.” Given that the main purpose of the law is to provide reassurance to investors, it seems desirable to give stronger assurance here and refer to relevant other legislation on IPR. As with other points this is primarily about facilitating readers with better communications.
FOREIGN STATE-OWNED ENTERPRISES AND SOVEREIGN WEALTH FUNDS	It appears the current law foresees no restrictions to have a legal entity with full foreign state participation or to create a fund that would correspond to sovereign wealth funds as they are accepted in other jurisdictions. This issue, in the context of geopolitics and increasing restrictions and control by some countries, should be considered. EU and other countries have increasingly sought in recent times to maintain better oversight and sometimes restrictions on foreign state enterprises (for example, from China) acquiring certain enterprises that are deemed to be of strategic national importance. <sup>44</sup>

Source: Review of Law by UNCTAD IPR, 2019.

In brief, the Armenian Investment Law 1994 has been updated in 2000, 2006, and 2007 and provides for most of the internationally recognized protections and guarantees for foreign investors. The most favored nation regime, key rights and privileges for foreign investment are referred to above. The checks undertaken by this project concur with the assessment by UNCTAD in 2019.<sup>45</sup> According to UNCTAD, Armenia has deployed consistent efforts to improve the legal and regulatory framework for business, and although several laws require updating and fine-tuning in line with good practice, “no major legislative gaps exist.”<sup>46</sup>

Other laws that impact on investors, but not exclusively in relation to investment policy, are:

- (a) The Law on State Registration of Legal Entities, State Record-Registration of Separated Subdivisions and Institutions of Legal Persons and Individual Entrepreneurs that applies to the process of registration of legal entities if there are no other laws that regulate relations concerning a special type of legal entity. If a foreign entity becomes a participant in an LLC, for instance, this law will be applicable when registering the change.
- (b) The Law on Protection of Economic Competition that regulates relations arising in the sphere of commercial competition, starting from defining the prohibited actions to the sanctions for conducting prohibited activities.

<sup>44</sup> In recent months there is a trend to introduce selected restrictions for FDI projects where national interest are involved in a time of public health crisis and related economic or national competitive vulnerability. This is primarily a political issue and should be reviewed and considered in the new investment policy

<sup>45</sup> [UNCTAD: Investment Policy Review of Armenia](#)

<sup>46</sup> [UNCTAD: Investment Policy Review of Armenia](#)



(c) The Tax Code is the main legal act defining existing tax types, regulating tax regimes, and such like.

(d) The Law of the Republic of Armenia on FEZ that regulates the establishment, organization, and termination of FEZ.

(e) The Law on Industrial policy that regulates industry policy and the establishment of industrial zones.

(f) The Law on Public-Private Partnership (PPP), adopted in 2019, that establishes a framework for the government to attract investment for projects focused on infrastructure.

### **2.2.2 INVESTOR DISPUTE RESOLUTION AND ARBITRATION IN ARMENIA**

Article 24 of “The Law on Foreign Investments (1994)” provides specifically for resolution of disputes involving investors, as follows:

#### **PROCEDURE FOR RESOLUTION OF DISPUTES**

Disputes arising between foreign investors and the Republic of Armenia with respect to foreign investments shall be considered by the courts of the Republic of Armenia, in a manner established by the legislation of the Republic of Armenia. Those disputes related to foreign investments, to which the Republic of Armenia is not a party, shall be considered by the courts of the Republic of Armenia or by other bodies for economic dispute settlement, in accordance with the legislation of the Republic of Armenia. Such disputes shall be considered by a mediation court, should the parties have so agreed, unless otherwise established by international treaties or by the preliminary agreement (founding documents, economic contracts, and so on) of the parties.”

The Armenia BITs with other countries contain similar provisions on treatment of international investors and options for international arbitration. The broad principle of disputes between the contracting parties, concerning the interpretation or application of a BIT, are consistently specified:

- Disputes being settled as far as possible by negotiations in the first instance.
- If a dispute cannot be settled within a specified period, it shall, upon the request of either contracting party, be submitted to an arbitral tribunal or similar mechanism.

For example, the U.S.-Armenia BIT, in force since 1996, defines that investor of each party be no less favorable than for the party’s own national investors or for investors from any third state. It provides for the option of international arbitration. As of December 2021, two investment disputes brought against Armenia under the U.S.-Armenia BIT were pending with the Centre for Settlement of Investment Disputes (ICSID).

Another example is the resolution of disputes provided for in Article 23 of Armenia-Japan BIT as follows:

#### **SETTLEMENT OF DISPUTE BETWEEN THE CONTRACTING PARTIES IN ARMENIA-JAPAN BIT, 2018**

Each Contracting Party shall accord sympathetic consideration to, and shall afford adequate opportunity for consultation regarding, such representations as the other Contracting Party may make with respect to any matter affecting the implementation of this Agreement. 2. Any dispute between the Contracting Parties as to the interpretation and application of this Agreement, not satisfactorily adjusted by diplomacy, shall be referred for decision to an arbitration board.”

A framework of international conventions to which Armenia is a party complements the Armenian Law and BITs and provides structures for dispute resolutions. Armenia is party to the International ICSID Convention (Washington Convention) and Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). Under Article 5 of the Armenian constitution, international treaties ratified by Armenia take precedence over domestic law. Domestic courts must recognize foreign arbitral awards in accordance with the New York Convention.

Commercial disputes may be brought before an Armenian or any other competent court, as provided by law or in accordance with party agreements. Commercial disputes are heard in courts of general jurisdiction. Specialized administrative courts adjudicate cases brought against state entities. Decisions of general and administrative courts may be appealed first at the Civil Court of Appeal and Administrative Court of Appeal, then at the Civil and Administrative Chamber of the Court of Cassation.

A Law on Commercial Arbitration, enacted in 2007, provides a wider range of options for resolving commercial disputes. Law on Mediation, adopted in 2018, defines the organization and implementation of the mediation, the status and licensing of the mediator, its rights and obligations. ADR could be used in commercial matters, including those involving mobile property and secured transactions, and also in cases involving family (only related to a non-personal nature) and labor disputes. While ADR options are available to those who seek alternatives to litigation, they currently are not widely used or trusted in Armenia.

In addition to the arbitration, conciliation, and fact-finding procedures provided by the ICSID Convention and Rules, disputing parties may select other ADR mechanisms, such as:

- Early neutral evaluation
- Facilitated negotiation
- Mediation.

Although these other ADR methods vary widely, they are non-binding and aim to assist parties in reaching an amicable settlement through voluntary agreement.

Many treaties and instruments permit parties to settle investment disputes through other ADR mechanisms. The process may be commenced at any stage on agreement by the parties. Depending on the nature of a dispute, other ADR procedures have been found to foster early exchange of information, clarify issues at stake, and facilitate dialogue between parties. Such procedures may be standalone or be undertaken in parallel with an ICSID arbitration. Any resulting amicable settlement during arbitration could be incorporated into an award of the arbitral tribunal, pursuant to ICSID Arbitration Rule 43(2). As such, it would be final and binding and could be recognized and enforced in any ICSID member state. ICSID supports efforts by parties to resolve investment disputes through alternate mechanisms and offers its facilities and administrative services, including expert support from its staff to the parties throughout the process. It also provides an archive of advice and rules dedicated to alternative dispute mediation and resolution.

In addition to the ICSID framework described above there are other informal, non-judicial, and advisory methods that have been successfully applied in some countries through the ministry responsible for FDI and the IPA. Three points are important to note here:

- **NEGATIVE IMPACT OF DISPUTES:** Investor disputes are potentially detrimental to the image of a country as it seeks to attract new investors, especially if a dispute attracts international media coverage and publicity. An investor dispute in the Armenia’s mining sector has attracted significant attention and remains outstanding after several years.<sup>47</sup>
- **AWARENESS BY IPAS OF DISPUTES ARISING:** Best-practice IPAs will frequently have close relationships with most FDI companies. They often work in partnership with these companies in assisting development of the business. They are therefore often aware of disputes arising and can provide neutral advice or seek expert mediation at an early stage.

**USING THE POLICY ADVOCACY ROLE TO SUPPORT RESOLUTION:** Within their role in ‘Policy Advocacy’ (see chapter 5) it is possible for IPAs to seek advice and action through the MOE or other ministry or state body that may facilitate the resolution of a dispute. This role may seek to introduce and engage external experienced mediators, familiar with the sector or contentious issues involved. As Armenia develops its IPA—Enterprise Armenia—it should ideally ensure close and regular communication with all major investors. This may enable a constructive advisory role to be conducted in dispute resolution.

In summary, Armenia has the essential legal framework for investor dispute resolutions in line with international best practice. Obstacles and negative impacts arise primarily in the implementation of the legal framework and especially in the court and judicial systems. The options of ADR mechanisms should ideally be developed and, potentially, the MOE and Enterprise Armenia can facilitate steps to support early resolution of disputes.

**OMBUDSMAN TRENDS AND ACTIVITIES:** According to OECD surveys and research, governments are being called upon to open their policy-making cycles to give citizens a more active role, strengthen transparency and accountability, and promote better-targeted services. This ‘open government’ is defined by the OECD as “a culture of governance based on the principles of transparency, integrity, accountability, and stakeholder participation.”<sup>48</sup>

OECD research, comprising data from 94 Ombudsman Institutions in 65 countries, reveals almost 30 percent of governments have included independent institutions such as OIs in their mechanisms to coordinate open-government strategies and institutions.

OIs have become a common feature of most countries’ institutional frameworks. Traditionally, an ombudsman is described as an official, usually appointed by the government or parliament, but their role, mandate, and scope of intervention can differ from one country to another as depending on political, institutional, and historical contexts. The role can range from dealing with complaints against public administration to safeguarding human rights. The OECD surveys show the major areas of activity of OIs as:

- Accepting and dealing with complaints against the public administration (96 percent of OIs).
- Mediation between citizens and public administration (67 percent of OIs).
- Protection of human rights (58 percent of OIs).<sup>49</sup>

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<sup>47</sup> Ibid

<sup>48</sup> [OECD: The Role of Ombudsman Institutions in Open Government](#)

<sup>49</sup> [The Role of Ombudsman Institutions in Open Government, OECD Working Paper on Public Governance, No. 29](#)

These are the classical functions of OIs. 83 percent of surveyed OIs affirmed that they report to parliament on their activities.

The Human Rights Defender (Ombudsman) in Armenia is elected by the National Assembly (Parliament) for a tenure of six years by a 3/5th majority of members' votes and reports to the Parliament. The Armenian Constitution and the RA Constitutional statute on "Human Rights Defender" stipulate that natural and legal entities have the right to appeal to the Ombudsman in the event their rights and freedoms are violated by: a) either state or self-governing bodies; b) their officials; or c) an organization that implements the competencies delegated by state and local self-governing bodies.

**BUSINESS OMBUDSMAN:** The active development of institutions that protect the rights of entrepreneurs and investors began in the 1990s in the EU, the United States, and Australia.

While most OECD and EU countries have OIs, not all have "Business Ombudsman" institutions. In one OECD country, South Korea, the Foreign Investment Ombudsman system was first introduced on October 1999 under the Foreign Investment Promotion Act, with an aim to resolve grievances of foreign-invested companies operating in Korea.<sup>50</sup> The Foreign Investment Ombudsman was commissioned by the President on the recommendation of the Minister of Trade, Industry, and Energy, and following deliberation by the Foreign Investment Committee. The Foreign Investment Ombudsman also heads the grievance settlement body, which supports the duties of the Ombudsman. The Ombudsman collects and analyzes information concerning the problems foreign firms experience, requests cooperation from relevant administrative agencies, recommends implementation of solutions, proposes new policies to improve the foreign investment promotion system, and conducts other necessary tasks to assist foreign-invested companies in resolving their grievances. The Korean Foreign Investment Ombudsman is part of the Korea Trade-Investment Promotion Agency (KOTRA), a major state company for trade and investment promotion (127 offices in 84 countries).

OIs are spreading to many countries. Most OIs in Eastern Europe and Central Asia are designed to work non-judicially on complaints about abuses of business rights, resolve disputes, and provide advocacy and/or advisory services. They rely primarily on their professionalism, public disclosure, and power to influence governments. Their case experiences provide a useful learning guide. OECD and European Bank for Reconstruction and Development (EBRD) have provided extensive support and guidance to countries seeking to develop OIs. In addition, OIs that have emerged in Eastern Europe and Central Asia have been mostly driven by a strong demand from the private sector.<sup>51</sup> Effective and wide consultation with private sector investors is an essential when examining the need and structure of a Business Ombudsman.

In 2014, Ukraine set up the Ukraine business ombudsman council following a memorandum of understanding between the cabinet, the EBRD, the OECD, and five business associations that included the American Chamber and European Business Association. Here, the Ombudsman is selected by a supervisory board that includes expats. While it helps companies with their problems, Ukraine's Ombudsman Council also looks at various problems and issues that companies face and offers solutions. The Council prepares reports on issues like customs, taxes, and land use and takes

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<sup>50</sup> [Korean LLI: Foreign Investment Ombudsman](#)

<sup>51</sup> Basel Institute on Governance: [Business Ombudsman Institutions in Eastern Europe and Central Asia: Taking Stock and Identifying Good Practices](#)

it up with the relevant authorities. In many cases, it follows up on problems to the Prime Minister's office to help implement solutions.<sup>52</sup>

Ombudsman Institutions in Georgia and Poland are appointed by the president. Similar examples include the Commissioner for Protection of Rights and Legitimate Interests of Entrepreneurs in Uzbekistan and the Ombudsman for the Protection of the Rights of Entrepreneurs of Kazakhstan. In some other countries, they operate independently, such as Kyrgyzstan's Commissioner for the Entrepreneur's Rights Protection of Kyrgyzstan, set up by government in consultation with business associations and international partners.

It should be noted that many best practice IPAs in OECD and EU countries (for example, Ireland, Scotland, Denmark, Estonia, Netherlands) will often address such investor complaints and issues through their policy advocacy activity (see chapter 5). The potential role of an expanded Enterprise Armenia should therefore be considered in examining the need for a Business Ombudsman in Armenia.

Armenia should consider two options:

- a) Enterprise Armenia: A strengthened agency with a department dealing with 'planning and policy advocacy' could potentially play a stronger role in dealing with investor issues and act as advisor and advocate to other government ministries and agencies in seeking resolutions. As the state agency responsible for promoting FDI, it has the advantage of being in regular contact with investors and could play a mediation rather than a judicial role. This type of role has been successfully implemented in some smaller EU and other peer countries.
- b) Review demand and scope of activity for a Business Ombudsman as a second option. The process should include consultation with major investors in Armenia to ensure constructive inputs on the need and scope of the Business Ombudsman's role and structure. Ideally, such an institution should work closely with Enterprise Armenia to facilitate communication and dialogue with investors.

## **2.2.4 IPR AS AN IMPORTANT DIRECTION FOR INVESTMENT POLICY**

Despite the existence of relevant legislation and executive government structures, according to some investor views, the concept of IPR remains unrecognized by a large part of the local population. The onus for IPR complaints rests with the offended party. The police assert that most cases are settled through out-of-court proceedings.

While the Armenian government has made some progress on IPR issues, strengthening enforcement mechanisms remain necessary (U.S. Department of State, 2021). U.S. companies have also reported that the investment climate is tainted by a failure to enforce IPR. UNCTAD reports that low awareness and poor monitoring of IPR violations harm the business climate. GOAM, in its action plan 2021-2026, envisages activity to develop an IPR strategy in 2022 under MOE's primary responsibility.

## **2.2.5 INVESTMENT TREATY POLICY**

The Law on Foreign Investment and 42 BIT are the primary sources of specific regulations (protection) on foreign investment. Armenia is signatory to the Commonwealth of Independent

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<sup>52</sup> OECD: [Defending businesses and entrepreneurs in Eastern Europe and Central Asia](#)

States (CIS) Multilateral Convention on the Protection of Investor Rights, in addition to some other international agreements with investment provisions. Armenia became a member of the EAEU in January 2015, together with Belarus, Kazakhstan, Kyrgyzstan, and Russia. Armenia entered into a CEPA with the EU in November 2017. This may, over time, align Armenia's regulatory system and standards with those of the EU as much as possible in the context of Armenia's EAEU obligations. In May 2015, Armenia signed a Trade and Investment Framework Agreement (TIFA) with the United States. The TIFA establishes a United States-Armenia Council on Trade and Investment to discuss bilateral trade, investment, and related issues and examine ways to strengthen the trade and investment relationship between the two countries.

This overall framework of legislation and international treaties regulates FDI in Armenia and, subject to some refining and updating, as recommended by the UNCTAD IPR Review, 2018, is generally in line with accepted best-practice frameworks in other countries.

## **2.3 ARMENIA'S INTERNATIONAL RANKINGS RELATED TO INVESTMENTS**

The analysis of this section has focused primarily on:

1. FDI regulatory restrictiveness as monitored in the OECD FDI regulatory restrictiveness index.
2. Doing Business as monitored in the WB "Doing Business" in Armenia series.
3. Kearney FDI Confidence Index on FDI, an annual survey of world-leading business executives.

These provide up-to-date and comparative analysis of rules and regulations for investors and views from investors on the importance of legal and regulatory frameworks in investment decisions.

While every methodology to quantify how open an investment regime is to foreign investors has its limitations, benchmarking is nevertheless an important exercise for policymakers to potentially identify and scrutinize statutory barriers that may be hampering investment and that may no longer be attaining policy objectives. This is particularly important as the overall level of openness of an investment regime matters in FDI attractiveness and as does its relative openness compared to peer economies.

### **2.3.1 MEASURING FDI RESTRICTIVENESS IN ARMENIA**

FDI rules and regulations are a critical determinant of a country's attractiveness to foreign investors. Over the past two decades, governments worldwide have continued to liberalize restrictions on international investment with only occasional relapses. FDI liberalization remains an unfinished agenda in various parts of the world and across sectors. However, in recent years, and in the current geopolitical and economic era, there is a shift by some countries toward introducing more restrictions on FDI.

Unlike geography and location of a country, FDI rules and regulations are something over which governments have control and can play a critical role in determining investment climates. FDI restrictions tend to arise mostly in primary sectors such as mining, agriculture, and in media and transport. But they also figure in manufacturing and services. They should be monitored at national and investment policy levels to assess their impact on attracting FDI and acquiring its full benefits.

The OECD FDI regulatory restrictiveness index (FDI index) gauges the restrictiveness of a country's FDI rules and regulations by looking at four main types of restrictions on FDI:

- Foreign equity limitations
- Discrimination screening or approval mechanisms
- Restrictions on the employment of foreigners as key personnel

Operational restrictions, for example, restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises.

The use of country positions under the OECD Code of Liberalization of Capital Movements and the OECD National Treatment Instrument and the comprehensive discussion of countries' discriminatory measures undertaken in Investment Policy Reviews, ensure an appropriate process for identifying relevant restrictions and allows for a great deal of consistency in their interpretation. The FDI Index is updated on a yearly basis. This allows it to track the progress of liberalization over time. The OECD Secretariat monitors changes to investment-related regulations in countries in the FDI Index. Actual implementation of statutory restrictions, which is difficult to assess, is not factored into the scoring.

The FDI Index is not a full measure of a country's investment climate. A range of other factors come into play, including how FDI rules are implemented. Entry barriers can also arise for other reasons, including state ownership in key sectors. A country's ability to attract FDI is affected by other factors, such as the size of its market, the extent of its integration with neighbors, and even geography. But it should be emphasized that FDI rules and regulations can be a critical determinant of a country's attractiveness to foreign investors and should be regularly monitored.

The extent of FDI restrictiveness, as measured by the FDI Index, varies across jurisdictions and across sectors. A negative relationship between restrictions and FDI has been observed in most of the existing literature on this subject. OECD research (OECD, 2019) shows the potential costs of restrictions in terms of foregone investments. Research for the period 1997 to 2016 estimates the elasticity of bilateral FDI positions and cross-border mergers and acquisitions (M&A) activity to FDI restrictions, as measured by the FDI Index. Results suggest that reforms liberalizing FDI restrictions by about 10 percent, as measured by the FDI Index, could increase bilateral FDI stocks by 2.1 percent on average. Effects are greater for FDI in the services sector, but even manufacturing sectors—which are typically open to FDI—are negatively affected by countries' overall restrictiveness.

A government's right to regulate in the public interest to achieve established policy objectives is paramount, but any policy that discriminates against one group of investors involves a cost. Barriers to FDI, for instance, typically involve the potential costs of foregone investment and efficiency gains. For this reason, governments are typically advised to consider whether non-discriminatory measures would be adequate to address their specific concerns. There are often sensible alternatives to discriminatory FDI policies, as certain risks can be addressed through non-discriminatory regulations.

Barriers to FDI are widespread across countries. There is no country with no restrictions on FDI, according to the FDI Index methodology, although the extent of restrictions varies across jurisdictions. OECD countries tend to have fewer restrictions on FDI than non-OECD countries covered by the FDI Index. Members of the EU members remain collectively largely open to FDI. Most signatories to the OECD Declaration on International Investment and Multinational Enterprises and applicants to the OECD Code of Liberalization of Capital Movements are open too. As Armenia



advances with policy development, it would be useful for it to participate in these OECD processes and benefit from regular comparative assessments with other countries.

Regular assessments of restrictions on FDI are rarely carried out by governments for two main reasons: firstly, some restrictions have existed for a long time and governments take them for granted without reflecting on their potential costs; and secondly, the remaining ones may be those most politically sensitive to eliminate, even if they no longer can be considered as serving the public interest.

The results from research and analysis suggest that the effects of FDI reforms can be significant and sizeable, and that even partial restrictions can have a strong impact on investment. As such, they provide an indication of what could be the potential impact on FDI of further liberalizing reforms, and vice-versa, of an uptick in investment restriction policies.

The OECD research shows that barriers to FDI have had larger deterring effects on foreign investments in the services sectors than elsewhere, partly reflecting their higher incidence in these sectors. But countries' overall level of FDI regulatory restrictiveness was also found to negatively affect FDI into manufacturing—which is open to FDI in most countries covered in the assessment. This points out to possible negative spillovers from such policies beyond their initially targeted sectors. Together, these results call attention to the potentially important implications of FDI restrictions for overall economy-wide productivity.

The OECD FDI Index covers 69 countries, including Armenia. The scoring is from 0=open to 1=closed. All peer countries, except Israel, are above the OECD average. The FDI Index shows Estonia, Georgia, and Armenia closely grouped at 7, 8, and 9 positions and shows that these countries have a comparatively low level of restrictions on investors. Results from the FDI Index for Armenia are shown in table 2.2, which also provides comparisons with selected peer countries (see chapter 5 for further explanation of the rationale for selecting these peer countries).

**TABLE 2.2: ARMENIA COMPARED TO PEER COUNTRIES ON FDI RESTRICTIVENESS, 2020**

OECD FDI REGULATORY RESTRICTIVENESS INDEX 2020			
FDI Index Rank	FDI Index Scores	Peer Countries	Peer Ranking
7	0.018	Estonia	1
8	0.018	Georgia	2
9.	0.019	Armenia	3
17	0.026	North Macedonia	4
26	0.043	Ireland	5
40	0.060	Moldova	6
57	0.118	Israel	7

Source: [OECD FDI Regulatory Restrictiveness Index 2020](#).

It is notable that Armenia has performed very well in this FDI Index, and annual assessments by OECD provides a continuous benchmarking for Armenia. Armenia's excellent performance on regulatory restrictive rating should be highlighted in competitive advantage messages.

In summary, OECD research on regulatory restrictiveness has shown:

- Armenia compares very favorably with other countries in the FDI Index.
- The effects of FDI regulatory reforms can be significant and sizeable through potential impact on FDI from further liberalizing reforms.
- Even partial restrictions can have a strong impact on investment.
- According to the research, liberalizing FDI restrictions by about 10 percent, as measured by the FDI Index, could increase bilateral FDI inward stocks by around 2.1 percent on average.
- Barriers to FDI have had larger deterring effects on foreign investments in the services sectors than elsewhere in the economy, partly reflecting their higher incidence in these sectors.
- The overall level of FDI regulatory restrictiveness in countries was also found to negatively affect FDI in manufacturing in the countries examined.
- Research also points to negative spillovers from policy restrictions beyond their initially targeted sectors. This implies FDI restrictions can have further impact on overall economy-wide productivity.

Armenia needs to continue benchmarking and removing or modifying restrictions to investors in a proportionate and balanced way. In this context, regular consultation is essential with existing and prospective investors to inform policymakers of specific issues and how they impact investment decisions.

### **2.3.2 EASE OF DOING BUSINESS IN ARMENIA**

The “Ease of Doing Business” section in the WB’s Doing Business reports<sup>53</sup> measure regulation primarily from the point of view of domestic entrepreneurs. However, the efficiency of regulation affecting domestic firms is correlated with regulation affecting FDI. Research on this subject has found a strong correlation between foreign investment and the ease of doing business ranking (Corcoran and Gillanders, 2015).<sup>54</sup> It also finds that this result is primarily driven by the “Doing Business” ease of trading across borders component. The evidence suggests that reforming business start-up regulation plays a role in enhancing the complementarity between foreign and domestic business activity. The complexity of tax systems is a major determinant of FDI, according to other research. The number of payments and time to comply with tax obligations have significant negative effects on whether foreign investment flows are present. Specifically, a 10 percent reduction in tax complexity is comparable to a 1 percent reduction in the effective corporate tax rate (Lawless, 2013).

In summary, research over the years suggests changes that improve regulatory efficiency have positive effects on entrepreneurship, firm formalization, access to credit, and FDI.

The WB’s “Doing Business” initiative provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level. In the most recent “Doing Business” rankings, Armenia features among the top 50 countries on most

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<sup>53</sup> The World Bank’s Doing Business report has been discontinued in 2021 and the World Bank will be working on a new approach to assessing the business and investment climate. [Read statement here](#)

<sup>54</sup> Springer: [Foreign direct investment and the ease of doing business](#)

indicators. Based on WB research, the easiest procedures in Armenia are starting a business and registering a property, for which the country ranks tenth and thirteenth, respectively.

Measurable progress has been shown in specific actions in “Doing Business” 2020 as shown below:

**DEALING WITH CONSTRUCTION PERMITS:** Armenia strengthened construction quality control by imposing stricter qualification requirements for architects and engineers.

**PROTECTING MINORITY INVESTORS:** Armenia strengthened minority investor protections by requiring an independent review and immediate disclosure to the public of related-party transactions, increasing shareholders’ rights and role in major corporate decisions, and clarifying ownership and control structures.

**PAYING TAXES:** Armenia made paying taxes easier by extending value-added tax (VAT) cash refunds to cases of capital investment.

**TRADING ACROSS BORDERS:** Armenia made exporting faster by allowing the online submission of customs declarations.

**TABLE 2.3: DOING BUSINESS IN ARMENIA 2020—RANKINGS ON KEY INDICATORS—190 COUNTRIES**

INDICATOR	RANKING	INDICATOR	RANKING
Starting a business	10	Protecting minority investors	120
Dealing with constructions permits	62	Paying taxes	52
Getting electricity	30	Trading across borders	43
Registering property	13	Enforcing contracts	30
Getting credit	48	Resolving insolvency	95

In December 2019, the government launched a new e-regulations platform that provides a step-by-step guide for business and investment procedures. The platform is available at <https://armenia.eregulations.org>. This initiative, combined with numerous other actions, have enabled Armenia to improve the regulatory environment for business in many areas. In fact, the U.S. Department of State says, “Armenia imposes few restrictions on foreign control and rights to private ownership and establishment. There are no restrictions on the rights of foreign nationals to acquire, establish, or dispose of business interests in Armenia. Business registration procedures are straightforward.”<sup>55</sup> The reform has enhanced Armenia’s image and support for business and ideally should be noted in all IPA promotional material and regular newsletters.

Table 2.4 shows a “Doing Business” comparative ranking of Armenia with selected peer countries. The rationale and selection of the peer countries is described in chapter 5. In the table, Armenia is compared to a “basket” of comparator countries, of approximately similar size to Armenia, comprising neighbors, small countries in Southeast Europe, and small countries that are high performers in FDI attraction. The objective with all such benchmarking is to understand how other countries are achieving progress on regulatory change and thereby assist Armenia to match peer

<sup>55</sup> U.S. Department of State: [2021 Investment Climate Statements: Armenia](#)

countries. It uses authoritative data from international studies to develop Armenia's own comparative analysis reviews.

In the table 2.4, the rankings in grey show the lowest rankings and in yellow, the second lowest rankings. Georgia is the best performer. In four areas, Armenia has the lowest performance, and in two areas, the second lowest performance. Armenia and Moldova are the lowest performers versus peer countries. It is also interesting to note that high performers on FDI, like Ireland and Israel, have challenges to address to improve their performance. In addition, “tax rates and ease of tax payments” is ranked as the most important factor in determining investment decisions. In the overall “Doing Business” ranking, Armenia is the lowest performer compared to peer countries.

**TABLE 2.4: COMPARING RANKING IN “DOING BUSINESS” 2020: ARMENIA AND PEER COUNTRIES**

	ARMENIA	GEORGIA	MOLDOVA	ESTONIA	NORTH MACEDONIA	IRELAND	ISRAEL
1. Ease of Doing Business	47	7	48	18	17	24	36
2. Starting a Business	10	2	13	14	78	23	28
3. Dealing with Construction Permits	62	21	156	19	15	36	85
4. Getting Electricity	30	42	84	53	68	47	83
5. Registering Property	13	5	22	6	48	60	75
6. Getting Credit	48	15	48	48	25	48	48
7. Protecting Minority Interests	120	7	45	79	12	13	18
8. Paying Taxes	52	14	33	12	37	4	13
9. Trading across borders	43	45	38	17	32	52	67
10. Enforcing contracts	30	12	62	8	47	91	85
11. Resolving insolvency	95	64	67	54	30	19	29

 = Lowest Ranking

 = 2nd Lowest Ranking

### 2.3.3 IMPORTANCE OF LEGAL AND REGULATORY PROCESS FOR INVESTOR DECISION-MAKING

The efficiency of legal and regulatory processes is deemed an important and key determinant of investor decisions, as shown in figure 2.3.

The Kearney FDI Confidence Index®<sup>56</sup> is an annual survey of global business executives that ranks markets likely to attract the most investment in the next three years. What is notable in this survey of senior business executives is the change in rank of investment-determining factors from 2020 to 2021. “Efficient legal and regulatory process” jumped from eleventh to fourth rank in terms of

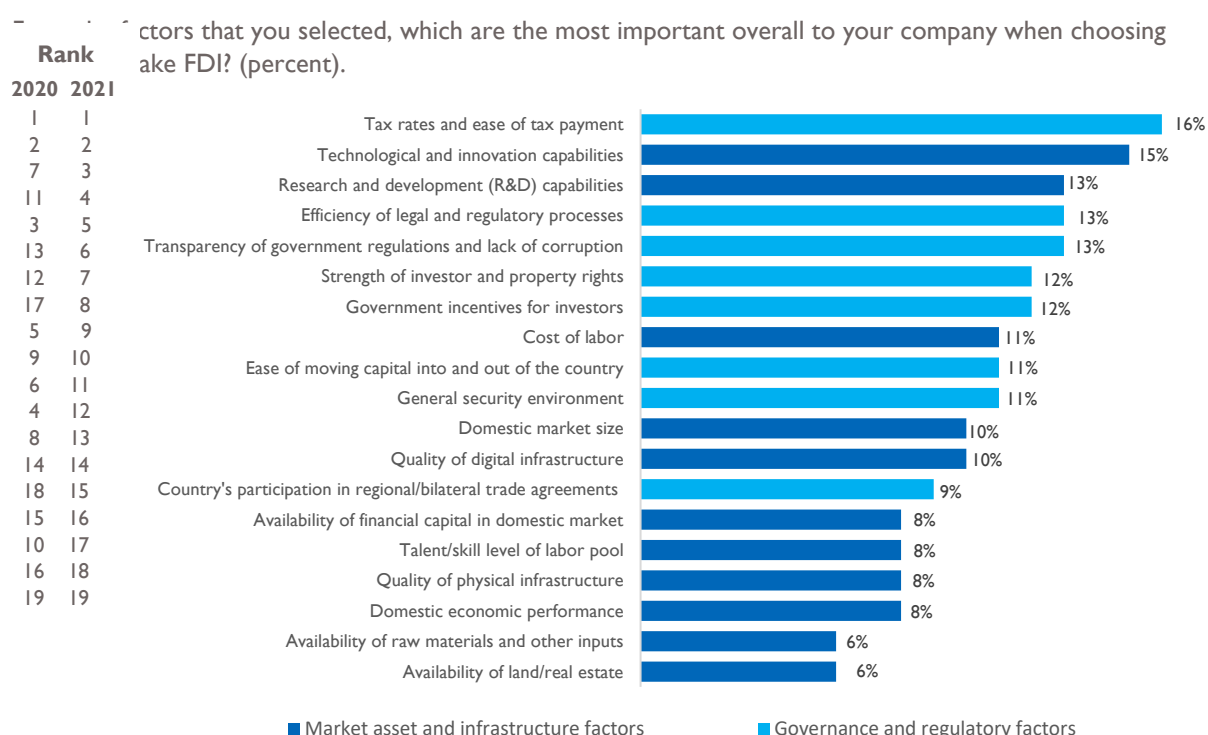
<sup>56</sup> Kearney: [On Shaky Ground, The 2021 FDI Confidence Index®](#)

importance to investment decision-makers in just one year. This view partly reflects greater concern over the regulatory process in investment destinations as the global economy recovers and increasing protection and restrictions are being introduced, mainly by larger countries. This survey provides useful insights for Armenia, highlighting the need for committed and continued action on improving the regulatory environment and the “Doing Business” agenda.

Other international indices provide positive views specifically on Armenia in the general area of economic freedom, which partly includes regulatory frameworks. In the 2020 report of Index of Economic Freedom by Heritage Foundation, Armenia is classified as “mostly free” and ranks 34th, improving by 13 positions and ahead of all other EAEU countries and many EU countries, including Cyprus, Bulgaria, Romania, Poland, Belgium, Spain, France, Portugal, and Italy.

## FIGURE 2.3: INVESTOR VIEWS ON IMPORTANCE OF EFFICIENT LEGAL AND REGULATORY ISSUES

**The tax environment, technological innovation capabilities, and regulatory quality are key determinants of investors’ intentions**



Source: 2021 Kearney FDI Confidence Index.<sup>57</sup>

## 2.4 ARMENIA'S POLICY-BUILDING COMPETITIVE ADVANTAGES

### 2.4.1 FACTORS INFLUENCING DECISIONS ON INVESTMENT DESTINATIONS

Historically, international FDI was largely motivated by access to markets, efficiency seeking and competitive cost/productivity factors, and asset-seeking factors, as in extractive industries. These factors individually and sometimes collectively still apply today. But in a rapidly changing world and the continuous emergence of new technologies, the factors motivating investment are now more

<sup>57</sup> <https://www.kearney.com/foreign-direct-investment-confidence-index/2021-full-report>

complex and dispersed. The presence of sector-related or competitor companies in a country can stimulate interest by other companies—“clustering.” As well, the worldwide search for human and technological skills is probably the main driving force for most new FDI projects today. Closely connected with this, is the reality that over 60 percent of mobile FDI projects today are in the internationally traded services sector (for example, ICT, business services, technical services, media, and numerous other traded services), and with even higher percentages of service projects in many developed countries.

Another element of reality today is the fact that many countries, especially developed countries, obtain over 50 percent of their new investment projects from existing investors in their countries. So, the priority and direction of Armenia’s activity in policy and promotion should be guided by this.

Fundamental and influential factors for all international investors are the image of a country, stability, and security, the business environment, including the legal and regulatory environment, and government attitude toward investors. These foundational factors need to be considered in investment policy. Equally, all countries need to focus on their unique or individual competitive advantages. Investment policy needs to lead and provide direction here and address:

What specific competitive advantages should Armenia seek to build?

What competitive advantages can be strengthened and how?

What should be the policy focus of Armenia?

In the context of the wider competitive environment for FDI and Armenia’s resources, Armenia’s investment policy should focus on crucial and proven competitive advantages. Suggested policy and promotion actions where greater focus is needed are:

- Targeting sectors and companies
- Providing a competitive advantage through people and talent
- Transforming the Armenian diaspora into a competitive advantage
- Providing property solutions for investors
- Strengthening partnership with existing FDI companies
- Establishing an information strategy highlighting competitive advantages (enhancing sector profiles, value propositions, success stories, company case experiences).

## **2.4.2 TARGETING SECTORS AND COMPANIES**

The policy challenges for Armenia from 2021 to 2026 and beyond is to build distinct competitive advantages that will sustain increasing FDI levels leading to high living standards in the face of intense global competition for FDI. The key to success lies in building knowledge and expertise to enable companies to achieve leading positions in their target markets. Historically there has been heavy emphasis on sectors. This is still valid today. But investment policy also needs to describe the types of companies that will thrive in the years immediately ahead, the types of new companies that will emerge, the key differences between successful companies today and those of tomorrow, and the new ways in which companies will collaborate for mutual advantage.

Economic success of recent decades in smaller countries has been sustained by an enterprise base with three distinct components: (a) foreign-owned companies trading internationally (b) domestic companies trading internationally and (c) other companies trading locally. The performance of each of these components is dependent to some degree on the performance of the other two, and interdependence will typically increase. Each component has an important role to play in Armenia's development, and national strategy should seek to maximize the contribution of each.

There are further areas of opportunity that can play a significant role in Armenia's economy over 2021-2026. They fall into three broad segments:

**HIGH VALUE-ADDED MANUFACTURING:** As local expertise in production and operations is integrated with knowledge-based activities such as R&D, marketing, customer-relations management, and sales, high value-added manufacturing will continue as a fundamental component of Armenia's economy.

**INTERNATIONALLY-TRADED SERVICES:** As international trade in services increases, there are emerging opportunities in a range of sectors and activities where Armenia has expertise. Armenia's success to date in ICT is an example here. But excellent prospects also exist in shared services centers, business-process outsourcing, and financial services.

**LOCALLY-TRADING BUSINESSES:** Locally-trading businesses in manufacturing and services have the potential to scale up and/or become suppliers to MNCs in Armenia and expand into export markets.

## GLOBAL TRENDS ARE DEFINING MANUFACTURING

The nature of manufacturing has changed with global markets and logistics, technology changes, blurring of manufacturing and service activities, demand for customized products, and offshoring. Global trends have a direct impact on how manufacturing is defined today:

- Continued globalization presents opportunities through emerging large-scale markets. It also presents challenges because of the increased intensity in worldwide competition.
- Technological advances have been significant and permeate all elements of production and business processes and the management of global operations.
- The increased blurring of manufacturing and service activities, impacts on how a company does business and differentiates its offering. In that context, major groups that were historically major manufacturers (for example, IBM, Xerox, Dell) now have more people and derive more revenue from the services side of their businesses.
- Customer demands for products customized to their needs have implications for stock management, flexibility in production processes, and delivery mechanisms.
- New global business models have impacted how companies address new markets, and have implications for partnering, revenue sharing, near-shoring, and off-shoring.

High-value manufacturing can be described as manufacturers who benefit from highly skilled, knowledge-intensive manufacturing operations while competing on unique value and innovation. The modern manufacturing process encompasses a broad cycle of activities from R&D through design, production, logistics, and distribution to after-sales service (figure 2.3). Production is only one



activity of a manufacturing company and it may or may not even be the defining element of the company; manufacturing companies add high value through a range of activities and functions. Activities across the value chain may be in different countries and undertaken by different companies, located where it makes most strategic or economic sense. Manufacturing policy and promotion need to recognize and address this reality and opportunity.

In brief, Armenia needs to target sectors, sub-sectors, and companies and seek all these business functions in new investment and existing FDI firms/projects (see figure 2.4).

The implications of these global changes are that investment policy for both FDI and domestic companies needs to promote and support manufacturing and service businesses that have this wider range of functions. Manufacturing is no longer mainly about production. Enterprise Armenia should ideally seek and encourage the establishment of all these functions in a business in its contacts with existing and prospective FDI investors. This also applies to internationally traded services and in the ICT sector. For example, Armenia has companies that are extensively involved in R&D activity.

**FIGURE 2.4: FUNCTIONS OF HIGH-VALUE MANUFACTURING**



*Note: Support Services includes procurement, customer sales services, technical support services, and linkage.*

Armenia has identified the following target sectors to attract FDI, according to the Enterprise Armenia website:<sup>58</sup>

- Innovative agriculture
- Textiles and apparel
- High-tech and ICT
- Tourism

<sup>58</sup> Enterprise Armenia: [enterprisearmenia.am](http://enterprisearmenia.am)

- Beverages and winemaking
- Pharmaceuticals
- Food processing
- Business process outsourcing

In addition, the diamond and jewelry and extractive industry sectors have shown significant FDI and export potentials.

## TARGETING OF SECTORS AND COMPANIES

Investment policy and promotion should ideally focus on the categories of companies and sectors that offer the best prospects for new investment. This can be done through research on target companies, but best practice has shown that it can also begin to be implemented in a more simple and pragmatic way (a) with existing FDI companies in Armenia that are known and (b) Enterprise Armenia promotion networks, when properly briefed, can begin to identify prospects via news reports, contacts at seminars, etc.

The proven success of a range of FDI companies in Armenia points to clear categories of companies and sectors. All these companies and sectors should be seen as continual candidates for new investment in existing operations through expansion, new business functions, group/sister companies, and supplier companies. In the COVID-19 era these existing companies in Armenia are most accessible and should be top priority for contact and dialogue in 2021-2022 and subsequent years.

New FDI companies in innovative agriculture, textile and apparel, high-tech and ICT, tourism, beverages and winemaking, pharmaceuticals, and business process outsourcing identified by Enterprise Armenia and its networks of overseas partners are another target for consideration. Armenia has company case experiences and a track record with companies in these sectors. This can potentially be used to establish contact with new companies, including suppliers to existing local companies.

There has been a clear trend in FDI projects moving eastwards with new projects from Western and Central Europe in recent years to, for example, Romania, Bulgaria, Latvia, Lithuania, Estonia, Croatia, Serbia, Bosnia and Herzegovina, North Macedonia, Moldova, Georgia, and Ukraine. Through its embassy network, Enterprise Armenia should, as a first step, establish a database of companies in Eastern Europe and neighboring countries. The objective here is not to entice existing projects from these countries but to ensure awareness of Armenia when new expansion projects emerge from these investors. For example, some companies have built new plants in Romania but put second or third plants in other countries in the South Caucasus countries. This is part of their business and investment strategy. Similarly, there are selected companies in Central Asia and Middle East that may be identified through embassies and network and initial contact established to spread awareness of Armenia's competitive position on new FDI.

The WIR and FDI Intelligence reports provide comprehensive data on FDI statistics (capital investment, number of FDI projects by country, sectors with FDI projects and numbers per sector, current trends in FDI, etc.). Armenia needs to monitor sectors where FDI projects are coming from and study these sectors as it seeks new investor prospects. For example, the life sciences sector,

including hospital supplies, medical devices, and clinical testing, are sectors where global growth is expanding and should also be a possible target sector for Armenia.

## INDUSTRY AND SERVICE SECTOR CLUSTERS

Armenia has existing clusters of ICT companies, located mainly in free zones, and diamonds, textiles, and garments companies. Clusters, which include suppliers, distributors, customers, competitors, universities, research institutions, and government agencies, generate increased activity and innovation and form part of the overall structure of investment policy and promotion. Clusters promote export growth and attract foreign investment, according to the experience of other countries.

As sector borders dissolve, new business clusters and ecosystems emerge. The face of business continues to be redefined by digital technology and on a very large scale. This will mean that emerging ecosystems of interconnected businesses will transform how companies serve customers and fulfil human needs. These ecosystems will do away with traditional industry borders, requiring companies to develop partnerships and innovate their value chains.

Investment policy should encourage establishment of viable clusters and ecosystems for key sectors, combining Armenian-owned and foreign firm activity through linkage programs, seeking sub-supply contacts, promoting research in all FDI companies as well as domestic companies, seeking joint investor support for sector education and training and supportive regulations dealing with specific sector needs such as essential quality standards and logistics/delivery procedures. A linkage program should ideally seek to bring international suppliers of existing investors to Armenia. This will strengthen the rooting of existing investors in Armenia and deliver benefits by having approved suppliers close to the existing investors. All of this could stimulate business development and increase investment. The MOE and Enterprise Armenia should seek views from industry players on establishing or upgrading existing clusters. Given a positive response, a further step would be to appoint Cluster Advisory Groups, where they do not exist already, to drive further development of clusters and ecosystems.

### 2.4.3 PEOPLE AND TALENT—MAKING IT A COMPETITIVE ADVANTAGE

Armenia's history of good education in STEM subjects is a significant competitive advantage compared to peer countries. This has been demonstrated by attracting new investment projects in the ICT sector, as well as in other sectors.

Human talent remains a key differentiator for most countries in winning FDI. In some sectors, especially ICT, biotechnology, life sciences, and technology, it is a cornerstone of success for FDI. According to Ernst & Young Consultants, "The talent pool is the number one issue for investors—it's the availability of people with the necessary skills. Not just being able to find them but also able to keep them once they're in the business... this is going to require new thinking and new methods... demand for skills in areas such as data science, quantum computing, blockchain...are no longer confined to fintech and ICT...we need to ensure people can navigate visa systems...find places to live...investors in the future will go where the skills are." (Special Report in association with the American Chamber of Commerce, Ireland, November 2021).

While education at all levels is the responsibility of the Ministry of Education, it is also an important factor for the MOE to attain the goals of the investment policy. The quality of education systems and the skills of people available are among the top-rated factors by many international investors. To

safeguard this strength and international competitiveness, governments need to ensure long-term sustainable funding of third-level education and lifelong learning structures.

Ensuring the skillsets of third-level graduates are aligned with the needs of the economy and specific companies and improving digital skills among workers across the economy is a continuous and vital policy issue. It is also important to ensure industry-relevant learning opportunities, including through further investment in online education. This is particularly important for workers in sectors experiencing structural challenges and sectors being disrupted by the digitalization of business models. There are increasing gaps on investment in R&D&I between transition and developing economies and advanced economies.

Armenia has strong human capital and a well-educated population, particularly in the science, technology, engineering, and mathematics fields, leading to significant investment in the high-tech and information technology sectors. Almost all of Armenia's population is literate. Armenia's human capital is one of its strongest resources. But businesses in Armenia see the extension of policies and programs to intensify education and skills training as a priority. According to a PwC report of a survey of CEOs, "CEOs in Armenia believe that both government and business should prioritize creating a skilled and educated workforce and building an effective tax system."<sup>59</sup>

In summary, competition for talent is global—and talent is mobile. The attraction of international expertise is a key part of this equation and regulatory processes that facilitate this are important policy tasks. Armenia will need to nurture talent to meet the needs of an advanced economy, continually developing its own people and attracting talent from around the world. This will require, inter alia, policy advocacy action on the following lines:

- **PROVIDE ADVICE ON LABOR NEEDS:** Arising from regular meetings with investors and responding to investor views and requests.
- **GET POLICY INPUTS FROM AND FORM PARTNERSHIP WITH UNIVERSITIES AND R&D INSTITUTIONS:** This is an important issue for selected investors.
- **ENSURE VISA REGIMES ARE USER-FRIENDLY:** Where skilled people are open to coming to Armenia, this needs to be facilitated.
- **ENSURE PARTICIPATION IN POLICY AND SECTOR REVIEW GROUPS AND GET REGULAR FEEDBACK ON INVESTOR VIEWS:** The MOE and Enterprise Armenia should ensure their participation and investor participation at policy and sector reviews on skills needs and training with other ministries and agencies.
- **PLAN FOR FUTURE SKILLS NEEDS:** Armenia has policies and structures in place here. In some countries (for example, Ireland and Costa Rica) IPAs have initiated very effective planning through dedicated task forces, such as "Expert Groups on Skills" to strengthen new initiatives on skill areas where there are deficiencies. This has led to significant new programs and cooperation with industry. This subject should form part of the MOE's and Enterprise Armenia's future planning.
- **SOURCE SKILLS FROM DIASPORA:** The Diaspora is a source of both investment and skills. This subject is addressed in the next section, but initiatives to attract diaspora skills should be

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<sup>59</sup> PwC: [24th Annual Global CEO Survey Armenian edition](#)

examined and strengthened. Experiences of peer countries like Israel and Ireland may provide useful insights to assist policy here.

#### **2.4.4 TRANSFORMING THE ARMENIAN DIASPORA INTO A COMPETITIVE ADVANTAGE**

The Armenian diaspora is a unique international network and competitive advantage for Armenia. This has been recognized by the Government with the establishment of the Office of the High Commissioner of the Diaspora within GOAM. Members of the diaspora have great experience, knowledge, and skills in various sectors and can lead Armenia to new ideas, introduce a new work culture, and create competitive products and services. Involvement of the diaspora will also help enrich and enhance the country's image.

There are an estimated 7.2 million Armenians living in 137 countries. The largest population is in the Russian Federation (2.6 million), followed by the United States (1.6 million), and France (700,000). The Middle East is well represented with sizable populations in the Islamic Republic of Iran (120,000) and Lebanon (140,000). So is Latin America, especially Argentina (128,000) and Brazil (100,000).<sup>60</sup>

Diaspora FDI is a major resource for Armenia. An analysis by the WB for 1994 to 2004 found that 69 percent of foreign investors were diaspora related and 68 per cent of companies with FDI had diaspora ties. It also showed that the Russian Federation (29 percent), the United States (17 percent) and the Islamic Republic of Iran (14 percent) were the leading home countries of diaspora investors. The diaspora in the U.S. was especially important in connections between Silicon Valley and the rise of Armenia's ICT industry. The importance of the diaspora has almost certainly broadened over time. Argentina is notable for investment in the Yerevan airport and the Tierras de Armenia wine development. The Russian Federation stands out for the size of its investment and the diaspora's philanthropic contributions to business foundations, such as TUMO Center for Creative Technologies and Foundation for Armenian Science and Technology (FAST). Armenia has almost unmatched ability to access talent and business connections in every field. The analysis identifies 108 business leaders across 20 countries as belonging to the diaspora.

The experience of Armenia bears some similarities with the government of Ireland's diaspora program, which is aimed at an estimated 70 million people outside Ireland with Irish ancestry.

##### **BOX 2.1 IRELAND'S DIASPORA PROGRAMS**

Ireland has built mutually beneficial economic ties with the diaspora. The diaspora holds invaluable expertise and insights into trade, industry, and innovation across the globe and has long played a pivotal role in creating and deepening economic connections with Ireland. Diaspora members provide strategic mentoring and guidance to Irish companies in pursuing trade and investment opportunities in overseas markets. Overseas linkages in the field of innovation also contribute to Ireland's R&D sector. Ireland has supported the establishment of regional business forums in Africa, Asia-Pacific, Europe, Latin America, the United States, and Canada.

Apart from extensive programs on cultural, educational, and social links, Ireland works with the diaspora to:

- Advance Ireland's trade and investment priorities.
- Identify and link to sector-specific Irish diaspora networks among research, development, and innovation related communities.

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<sup>60</sup> UNCTAD: [Investment Policy Review of Armenia](#)

- Link with Irish scientists and innovators abroad.
- Provide venture capital funds to projects from the diaspora.

Armenia's policies on FDI need to interlink and coordinate with the work of the Office of the High Commissioner of the Diaspora. The MOE and Enterprise Armenia are reported to be in the process of establishing an overseas network, in the absence of Enterprise Armenia's overseas offices, to promote contact with potential investors both from the diaspora and outside the diaspora. As the UNCTAD 2019 study noted, much of the diaspora investment in Armenia to date has not come from proactive targeting of potential investors. Also, some very notable contributions by the diaspora have been philanthropic rather than direct investment. The creation of new networks by Enterprise Armenia should open new contacts for proactive outreach to more prospective investors. This is a positive step and ideally should be advanced as soon as possible. Therefore, actions to pursue under investment policy are:

- **MAINTAIN CLOSE LINKS WITH DIASPORA HIGH COMMISSIONER OFFICE AS MEMBER OF TEAM ARMENIA:** In practical terms, Enterprise Armenia should share information on its "pipeline" of potential investors (contacts, planned site visits, projects identified) from or through the Diaspora so that better and effective joint support can be provided. Also instigate joint proactive focus on prospective investors.
- **ESTABLISH EFFECTIVE COMMUNICATION CHANNELS:** Establish good communications on events (for example, EA Calendar of Events), visits by delegations and other promotional activity, where diaspora participants are involved or have instigated new contacts. Good teamwork will benefit possible investors.
- **ENCOURAGE JOINT EVENTS:** Where possible, organize joint events overseas with the diaspora on investment case experiences and opportunities for new investment. Factual case experiences of selected FDI investors in Armenia are powerful tools for promotion.

## BOX 2.2 IRELAND'S PROPERTY SOLUTIONS

Ireland's Industrial Development Authority (IDA) is committed to ensuring that a good supply of suitable property solutions is available for FDI at all regional locations. Where the private sector is not delivering solutions, IDA will take a lead role in the delivery of new facilities. Its dedicated IDA Property Division seeks and develops partnerships with key regional stakeholders, including local authorities, to ensure land, infrastructure, and building permits are available in all regions. It collaborates with local authorities, where appropriate, on advance planning permissions, which provide multinational corporations (MNCs) with greater certainty and predictability as they inspect sites and make investment decisions.

Local authorities in Ireland have a specific role in "peacemaking," namely, the provision of infrastructure and services, and they compete to ensure that their regions are seen as attractive to FDI. IDA's ability to maintain existing levels of FDI and to attract new investment is dependent upon local authorities successfully and consistently taking actions in a planning and development context to improve the livability of Ireland's towns and cities.

This includes interrelated policies to ensure critical population mass and density levels to support services and infrastructure; appropriate mix of housing solutions; access to multiple modes of transportation including public transport; walking and bike connectivity; and social and cultural amenities to support vibrant communities.

Action in areas such as these is vital to ensure regions are attractive places to live, which is the fundamental bedrock to having the talent and skills base that can subsequently enable FDI attraction. Local authorities can act on placemaking to give Ireland's regions a competitive edge internationally and by supporting smart-city technologies and ensuring Ireland is positioned as one of the best places in the world both to do business and to live. This is the policy approach of IDA and the Irish Government.

**IDA'S REGIONAL PROPERTY PROGRAM:** A key plank of delivering regional investments and jobs is IDA's regional property program, which provides property and strategic site solutions to address market failures in regional locations. IDA estimates that a budget of €344 million would be required over five years to deliver on the regional property strategy set out in its current strategy. 52 million was allocated for IDA property function in the Irish Government Budget 2021.

The Irish Government, through the Ministry of Jobs, Employment, and Innovation (effectively the MOE), has unveiled a five-year strategy aimed at accelerating the jobs recovery in every part of the country. The plan includes €150 million for an IDA property investment program to attract FDI into various parts of Ireland over a five-year period. This investment will focus on the building of:

- Advance Building Solutions (ATBs)
- Infrastructure investment in several Utility Intensive Strategic site solutions
- Upgrade of Business and Technology €Parks within IDA's national portfolio.

The program will build on recent investments by IDA in several Advance Technology Buildings in regional locations, with three more to begin construction in 2022 at sites in Sligo, Castlebar, and Tralee and further investments planned for Galway, Dundalk, Limerick, Athlone, Carlow, and Waterford. The provision of ATBs will account for approximately one third of the overall investment.

## 2.4.5 PROPERTY SOLUTIONS FOR INVESTORS

“Property solutions for investors” refers to the importance of ensuring the supply of suitable land, buildings, and infrastructure in urban and regional locations, as required by current and prospective investors in Armenia. A robust property and infrastructure ecosystem can be the key differentiator in determining investor decisions on international FDI projects.

How competitive is Armenia in addressing this vital issue for international investors? This is a core issue that FDI policy and promotion needs to address, and its importance is often underestimated by governments and FDI policy makers.

International experience of best-practice promotion agencies shows clearly that the provision of appropriate, innovative, and competitive property solutions, coupled with robust infrastructure and a developed property ecosystem, is a key driver behind winning FDI business.<sup>61</sup> For example, IDA Ireland sees property and local infrastructure as an essential attractiveness factor for investors and more important than incentives.

Key attractiveness factors for investors in Ireland, according to IDA, include:

- Critical mass of population and urban centers, in line with national policy
- Skill and talent availability
- Attractiveness, quality of life, and placemaking
- Industry specific clusters and ecosystems
- Local infrastructure provision and connectivity
- Availability of property solutions (public and private sector)
- Alignment with Ireland's sector and territory targets.

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<sup>61</sup> [www.idaireland.com](http://www.idaireland.com) and [www.czechinvest.org](http://www.czechinvest.org) show extensive “property solutions” programs



The other successful example is the Czech Investment Services on property solutions for investors that include:

- Obtaining relevant information about the real estate market and providing consultations
- Identifying suitable locations based on project parameters
- Using the expansive database of industrial zones and real estate for industry and business
- Mediating of contacts with property owners, state administration, and local government
- Organizing visits and tours of individual locations
- Offering brownfields as investment opportunities
- Providing advice on gaining financial resources from public budgets
- Consulting in the preparation and financing of projects, preparation of industrial zones, and regeneration of brownfields
- Supporting and promoting commercial real estate and brownfields
- Registering new properties for free in the database.

### **BOX 2.3 CZECH REPUBLIC PROPERTY SOLUTIONS**

The Czech Republic's business and investment development agency, CzechInvest, administers a database of business properties that is one of the most expansive of its kind in the Czech Republic. Properties registered in this database fulfil the most demanding requirements of CzechInvest's clients. The data is not public and primarily serves the purposes of companies in the areas of manufacturing, business support services, and technology centers that are seeking suitable properties for business operations.

Within the database, CzechInvest offers investors properties under public and private ownership in four categories: industrial sites, production facilities, office facilities, and brownfields. In 2017, for example, CzechInvest received 216 inquiries from investors seeking properties in the Czech Republic. Those inquiries most frequently involved industrial sites (47.2 percent), followed by production (43.1 percent) and office facilities (9.7 percent). Brownfield sites accounted for 22.7 percent of all inquiries. The largest number of inquiries pertaining to industrial sites involved land plots with an area of 2 to 5 hectares (27 percent), followed by sites covering 0 to 2 hectares (22 percent), 5 to 10 hectares (20 percent) and, in equal measure, 10 to 20 hectares (16 percent) and 20 or more hectares (16 percent).

Property solutions for investors in Ireland and Czech Republic have been developed over many years. They provide insights on potential long-term direction and scope of policy and promotion for Armenia. It is important to note that other former transition countries (for example, North Macedonia, Latvia, Lithuania) have taken significant steps, albeit less advanced, to build similar property-solution programs for investors.

Armenia needs to match competitor countries and establish policy and promotion programs to compete effectively and put in place better property solutions for investors. Feedback from the private sector and Enterprise Armenia, outlined below, suggests this is an absolute priority for investors.

- Land reform is a long-term issue that has hindered attraction of FDI to Armenia and continues to do so today.
- Many FDI projects need big plots but cannot secure suitable sites.
- In some instances, the land belongs to thousands of people and often the owner cannot be identified.
- The industrial price of land is often double or triple the agricultural price.
- There is an inventory of factories/state property as well as a “master plan,” but this dates back to the Soviet period.
- It is possible to identify a 10 to 20-hectare site, but the purchase process can take months or even longer.
- There are 30 to 40 projects that are connected to state property and it takes inordinately long time for the Government to decide on a sale, with many parties consulted and extensive paperwork.
- 80 percent of the Enterprise Armenia pipeline of projects is hindered by lengthy negotiations with the Ministry of Finance and others.
- Enterprise Armenia has a pipeline of €2.5 billion of projects. Investors are not willing to wait a year for decisions and projects are being lost as a result.
- Local communities outside Yerevan (much land is owned by municipalities) are reluctant to sell land. The prospect of new jobs in their region does not motivate them to sell land for industry. Instead, they seek renovation of local gardens, pools, or other local infrastructure by investors as part of any purchase.

#### **2.4.5 STRENGTHENING PARTNERSHIP WITH THE EXISTING FDI COMPANIES**

The presence of high technology and major brands in Armenia (for example, Oracle, Microsoft, VMware/Siemens, Synopsis, Carrefour, D-Link, Mentor Graphics) is a major competitive advantage. Clearly, government ministries and Enterprise Armenia have good contacts with many such companies. However, recent reports suggest that the process of consultation with private sector representatives could be improved. Existing investors should be cultivated more. Based on international trends, they are a potential source of 50 percent of all new FDI in Armenia. Immediate action should be undertaken to maximize investor partnership and investment benefits for Armenia.

- At a policy and promotional level (also see chapter 5), there should be a more concerted approach, and regular dialogue with such companies. A concentrated drive, “Investor Partnership 2026,” could be launched to boost partnership and consultation with existing investors to a new mutually-beneficial level. Ideally, this would be led at the highest government levels with the central involvement of Enterprise Armenia, and with the aim of assuring investors of government support for expanding their businesses. Careful planning, conduct of meetings, and follow-up are essential elements of this type of initiative and a “pilot” phase might be done initially.

- Representatives of U.S. entities have raised concerns about the quality of stakeholder consultation by the government with the private sector and government responsiveness in addressing concerns among the business community. This indicates the need for better consultation with the private sector.
- Explore possibilities for investor membership within an Enterprise Armenia advisory board (or as members of an EA supervisory board jointly with the board of trustees) and sector advisory groups.
- Explore willingness of existing investors in Armenia to participate in linkages and their current experience with domestic suppliers. This is primarily a task for Enterprise Armenia (see chapter 5).

This type of constructive partnership with regularly scheduled meetings with existing investors, in Armenia or overseas headquarters (HQ) of such companies, can secure and potentially expand existing investments. It should be a core theme of investment policy and driven by the MOE and Enterprise Armenia.

#### 2.4.6 INFORMATION STRATEGY HIGHLIGHTING THE COMPETITIVE ADVANTAGE

The information strategy led Enterprise Armenia is a core part of the investment policy and promotion and should highlight the competitive advantages of the country as an investment destination for the targeted sectors/subsectors. The information strategy is discussed in detail in chapter 5.

**ENHANCING SECTOR PROFILES:** The preparation, publishing, and dissemination of sector profiles could heighten investor interest in ICT and related sectors and sub-sectors and also target sectors such as pharmaceuticals and biotechnology. Ideally, strong sector profiles should be developed on all target sectors. Sector experts, international consultants (see table 2.5), and universities involved in joint R&D should ideally be involved this process.

**TABLE 2.5: EXAMPLE OF THE SHORT PROFILE FOR THE ICT SECTOR**

1250 Companies: As of 2019, about 1250 ICT companies operate in Armenia.
Multinationals such as Microsoft, IBM, Synopsys, Oracle, Cisco, Ericsson, Huawei, and D-Link have been in Armenia for many years.
ICT specializations are offered at eight universities in Armenia.
Armath Engineering Laboratories and TUMO Center for Creative Technologies educate Armenian schoolchildren and teenagers on all aspects of tech and design free of charge.
The workforce in the ICT sector is well-educated (45 percent of workers have higher degrees) and skilled (technical skills, English-language proficiency).
ICT sector start-ups are offered tax break certificates that provide several tax incentives for their first years.
Products and services in the sector are mainly exported to the U.S., Canada, and Europe.

Source: PWC “Guide to Doing Business in Armenia,” 2021.

These profiles could be used in Enterprise Armenia’s press kit for journalists and by embassies, networks, and diaspora groups in mailshot campaigns. In chapter 5, recommendations on upgrading EA brochures have been made, but this action should be seen as a key policy issue as well.

**SUCCESS STORIES - COMPANY CASE EXPERIENCES:** As a matter of policy and promotion, the MOE and Enterprise Armenia should act to document company case experiences. Short, visual, and attractive company profiles can be prepared in consultation and agreement with selected companies. Some companies in Armenia already have profiles of their companies on their websites. These are excellent promotion stories and competitive advantages, not just for the companies, but for Armenia too. See for example, the Synopsys R&D brochure. Many of these companies are seeking to attract international talent in the ICT area. They may therefore welcome wider publicity about their companies and activity.

**VALUE PROPOSITIONS:** A core part of effective investment policy and promotion is the creation of easily understood national, regional, and sectoral value propositions for investors. Value propositions should spell out the real advantages for individual investors and strengthen the national image of Armenia as a successful destination for international investors. Armenia needs to develop better and innovative propositions for international investors compared to competitor countries. This is primarily a task for Enterprise Armenia in cooperation with the MOE and should form part of investment policy and promotion strategy.

## 2.5 BENCHMARKING WITH SELECTED PEER COUNTRIES

Benchmarking is widely developed and used by international institutions, for example, EU, OECD, UNCTAD, EBR), UNIDO, WB, Asian Development Bank, and USAID. It is also used by numerous private sector organizations, such as McKinsey Consultants, AT Kearney, EY, Klynveld Peat Marwick and Goerdeler (KPMG), Price Waterhouse Coopers (PwC), The Financial Times, and fDi Intelligence. In many countries the benchmarking methodology extends to national and structural policies and the attractiveness of the business environment (for example, national competitiveness, “doing business” comparisons, education, and skills development).

The primary objective of benchmarking is to understand what factors in other countries are influential in developing successful FDI promotion practices. Many factors are likely to be involved: government policy and attitude to FDI, business and regulatory environment, availability of people and education/skills, labor/transport/utility costs, property solutions, sector partners, access to larger national or regional markets, and national image and promotion strategy and practices. Through benchmarking, insights from international practices can assist in policy design, promotion, and implementation. This chapter proposes that Enterprise Armenia builds on the available sources of information and data and develops its own benchmarking process for FDI promotion and facilitation in cooperation with the MOE.

### PEER COUNTRIES

Peer countries are **countries sharing the same or similar characteristics as another country** such as population size, stage of economic development, history of development, and culture. All major international institutions (WB, UNCTAD, UNIDO, OECD, EBRD, etc.) conduct regular benchmarking and rankings of countries. International reports and indices provide valuable source material for comparisons. As previously stated, the process proposed here is about Armenia conducting its own analysis based on its own specific objectives and targets.

Benchmarking with peer countries seeks to learn from their success factors. Identification of relevant peers is essential to ensure comparability. The performance of peer countries provides useful learning experiences in examining policy options and promotion practices for the country conducting the benchmarking.

Some of the most successful countries and investment promotion agencies regularly conduct their own benchmarking with competitor countries. It is important to emphasize that this process is not about simply copying other countries but more about learning, adapting, and adopting ideas and initiatives for action, for example:

- (a) Learning the “what/why/how” of competitors’ policies and promotion practices
- (b) Understanding how image and direct contact with investor servicing can be crucial
- (c) Adapting lessons learned for Armenia’s environment and aspirations
- (d) Implementing change and new initiatives as Armenia develops policy and promotion.

The process proposed here is for Enterprise Armenia, in cooperation with the MOE, to shape and conduct its own internal comparative analysis and repeat regularly to identify changes and improvements needed in investment policy and promotion.

## SELECTION CRITERIA

Most countries will select a “basket” of comparator countries based on agreed and relevant criteria. Comparative analysis on the national economic policies and business environment is typically undertaken by “Competitiveness Councils” and government ministries responsible for policy.<sup>62</sup> Analysis on comparative investment promotion and facilitation is a core task for individual promotion agencies. This may be done in a very practical way as outlined in later sections of this chapter. Examples of effective criteria for selecting comparator countries used by some IPAs in undertaking benchmarking are as follows:

- **NEIGHBOURING COUNTRIES AND REGIONS:** In theory, all investment projects (excluding, for example, asset-seeking investments in sectors like mining or oil and gas that are unique to a country) attracted to a country’s neighboring region could have been attracted to another country in that region, such as Armenia. Close monitoring of the number, sector, and type of investment projects attracted to neighboring countries is useful to understand the competitive advantages of each neighboring country. This also assists in answering the question “Could that investment project have been attracted to Armenia?” or “Can future investment projects by this investor be attracted to Armenia?” Many international companies may want to place different projects in different countries as part of their competitive business strategy. Armenia should be establishing contact with such companies for future investment projects.
- **SIMILAR-SIZED POPULATION AND MARKET SIZE:** Ideally, smaller countries should compare themselves with similar-sized countries. Major countries with major markets (China, USA, Japan, Indonesia, India, Vietnam, Germany, France, and UK) will always attract market-seeking investors and have significant differences and advantages compared to smaller countries. For example, Armenia has a population of three million people so countries with a population of that size or in the range of one million to ten million may provide the most useful and relevant guidance for Armenian policymakers and promotion agencies. This process does not exclude some comparisons with large countries. There may be specific justification to include selected larger countries, but successful IPAs in smaller countries will usually seek to focus on peer countries.

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<sup>62</sup> For example, <https://wbc-rti.info/object/organisation/9422> and <http://www.competitiveness.ie/>

- **REGIONS AND COUNTRIES AT A SIMILAR STAGE OF DEVELOPMENT:** Armenia is a transition country and monitoring the performance of other transition countries is desirable, especially where they have achieved greater success in attracting investment.
- **COUNTRIES WITH SIMILAR BACKGROUND AND HISTORIES:** Smaller countries that were part of the Soviet Union or under the historical influence of the Soviet Union can provide a useful guide to attracting investment. For Armenia, these might include Estonia, Latvia, Lithuania, Georgia, Moldova, Bosnia and Herzegovina, Croatia, Slovenia, and Slovakia. Some of these now have the advantage of being full members of the EU but it is worth exploring whether there are other advantages that they have in their policy approach and promotion methods that can provide learning experiences for Armenia.
- **HIGH PERFORMING COUNTRIES AND AGENCIES:** This group of countries may not be neighbors but can provide useful and practical insight into how they achieved exceptional performance. Examples include Ireland, Israel, Costa Rica, and Singapore. Why have such countries achieved high performance? What are the policies, institutions and practices that have supported their performance and continuous success in attracting international investment?
- **COMPLEXITY OF BENCHMARKING:** Benchmarking can be undertaken at various levels of analysis and complexity. This document describes a simple and practical methodology that can be implemented immediately. At its most basic level, Armenia should monitor its performance at attracting FDI greenfield projects (this is the biggest section of global FDI in terms of project numbers and value) compared to a range of countries. This is a core task for IPAs. Knowing who your competitors are, how they work, and success achieved is fundamental to competing better for FDI. Excellent sources of comparative data and information to do this exist. Examples include the UNCTAD World Investment Report,<sup>63</sup> FDI Intelligence reports,<sup>64</sup> and EY<sup>65</sup> annual indices, among others.

## IMPLEMENTING ANALYSIS AND COMPARISONS

Based on the above criteria, comparisons can be made with (a) an initial long list of 25 countries, and (b) a short list, as shown in table 2.6. Population in all countries ranges from one to ten million people.<sup>66</sup> This list can be changed, as necessary. It is common for countries to review this list annually and adjust as required.

**TABLE 2.6: SELECTED COMPARATOR COUNTRIES - LONG LIST, SHORT LIST (shown in red)**

ARMENIA'S NEIGHBORING COUNTRIES IN THE CAUCASUS AND CENTRAL ASIA		
ARMENIA	Georgia	Moldova
Azerbaijan	Tajikistan	Kyrgyzstan
TRANSITION ECONOMIES IN THE CIS AND SOUTHEAST EUROPE		
Serbia	N. Macedonia	Bosnia and Herzegovina
Albania		

<sup>63</sup> United Nations Conference on Trade and Development: World Investment Report 2021

<sup>64</sup> The fDi Report 2021

<sup>65</sup> EY: Press Release: Foreign investment into Europe set to rebound in 2021, following 2020 downswing

<sup>66</sup> <https://population.un.org/wpp/>

## EU COUNTRIES INCLUDING FORMER USSR COUNTRIES

Latvia	Lithuania	Estonia
Slovakia	Slovenia	Croatia
Bulgaria	Hungary	

## HIGH PERFORMERS: EU AND INTERNATIONALLY

Ireland	Finland	Denmark
New Zealand	Singapore	United Arab Emirates (UAE)
Costa Rica	Israel	

The “long list” is a first step in the selection process. Key questions for comparative review here are:

- How many greenfield projects were attracted in 2020 and over five years from 2016 to 2020?
- How does Armenia’s performance compare, allowing for population size?

Performance and comparisons are shown in table 2.7. Compared to the 25 other countries selected, Armenia was ranked at number 21 on the number of greenfield projects attracted.<sup>67</sup>

The high level of performance of six countries (Singapore, Ireland, UAE, Finland, Costa Rica, and Hungary), each attracting over 100 projects per year during the COVID-19 pandemic and global economic recession, is particularly notable. Analysis of earlier years shows most of these countries have maintained a highly consistent performance over the past decade.

**TABLE 2.7: HOW ARMENIA COMPARES IN ATTRACTING GREENFIELD PROJECTS**

COUNTRY	POPULATION (MILLIONS)	GREENFIELD PROJECTS 2020	ANNUAL AVERAGE 2016-2020	PROJECTS PER ONE MILLION PEOPLE	RANK*
Singapore	5.7	303	383	67	1
Ireland	5.0	241	229	46	2
UAE	9.9	375	368	37	3
Finland	5.6	131	152	27	4
Lithuania	2.8	66	70	25	5
Denmark	5.8	58	103	18	6
Estonia	1.3	30	23	18	7
Latvia	1.8	25	28	16	8
Costa Rica	5.5	102	79	14	9

<sup>67</sup> [United Nations Conference on Trade and Development: World Investment Report 2021](#)



New Zealand	5.0	66	65	13	10
Croatia	4.0	40	52	13	11
Bulgaria	6.0	36	75	13	12
Hungary	9.6	100	102	11	13
Serbia	8.7	39	102	11	14
Slovenia	2.1	12	20	10	15
Slovakia	5.5	26	43	8	16
Bosnia and Herzegovina	3.3	12	22	7	17
<b>Israel</b>	<b>8.7</b>	<b>47</b>	<b>62</b>	<b>7</b>	<b>18</b>
<b>N. Macedonia</b>	<b>2.0</b>	<b>3</b>	<b>12</b>	<b>6</b>	<b>19</b>
<b>Georgia</b>	<b>4.0</b>	<b>13</b>	<b>17</b>	<b>4</b>	<b>20</b>
<b>ARMENIA</b>	<b>3.0</b>	<b>3</b>	<b>10</b>	<b>3</b>	<b>21</b>
Azerbaijan	10.3	6	18	2	22
Albania	2.9	5	4	1	23
<b>Moldova</b>	<b>4.0</b>	<b>5</b>	<b>5</b>	<b>1</b>	<b>24</b>
Tajikistan	9.3	9	5	1	25
Kyrgyzstan	6.5	1	4	1	26

Sources: UNCTAD “World Investment Report 2021” and FDI Intelligence, 2021.

Potential investors will often monitor the performance of various countries in these international indices (especially the UNCTAD World Investment Report) when seeking new investment locations. It is therefore important that all countries and IPAs should seek to show improving performance in these indices and ensure that their own projects are announced and publicized.

Table 2.7 above shows a comparatively low level of performance by Armenia in attracting greenfield FDI projects but it is still better than most neighboring Eurasian countries, allowing for population size.

Benchmarking the number of Greenfield projects (table 2.7 is a relatively simple and vital exercise for all IPAs.)

The above data refers to announced FDI greenfield projects. UNCTAD and fDi Intelligence have much expertise in tracking FDI projects globally. However, numbers and rankings should be seen as broad indicators that point to where action on policy and promotion needs to be taken.

The table does not illustrate the employment scale and quality of projects attracted by countries. Moldova ranks below Armenia in table 2.6. However, in recent years Moldova has attracted 15 auto component projects that employ 20,000 workers in different regions of Moldova.<sup>68</sup>

The comparative data in table 2.6 provides insight on future goals for Enterprise Armenia, for example, to match the performance levels of specific other countries. This “comparative process” with competitor countries for FDI is a vital part of best-practice promotion. Enterprise Armenia should develop its own comparative assessment as it develops its policy and promotion activity.

## **FDI STOCKS AND ANNUAL FDI INFLOWS**

Annual investment inflows and FDI stock have been addressed in chapter I. The focus in this chapter is primarily on the largest section of global FDI, namely, greenfield projects. As benchmarking is developed, the MOE and Enterprise Armenia could extend the methodology to include annual FDI Inflows, FDI stock, and number of greenfield projects, and later other metrics such as companies undertaking R&D, quality of jobs, salary levels, etc.

The data for Armenia can be developed as a time series that will give better insights over time for Armenia. Annual policy and promotion reviews will benefit from regular tracking of, for example:

- Location trends of new FDI projects
- Comparative scale of annual inflows
- Investor country origin and sector sources
- Scale of investment projects (this will require further monitoring of media reports)
- Competitive advantages that have attracted investors, such as sectoral ecosystems and incentives offered.

## **2.6 PRIVATE SECTOR VIEWS ON INVESTMENT POLICY ISSUES**

This section summarizes investor views and feedback provided by European (German, Italian, French, and Swiss), U.S., and other international investors in Armenia.

Investors have expressed positive views on their investments in Armenia. While highlighting specific business concerns and issues for reform, they emphasized the need to strengthen the confidence that existing investors have in Armenia’s attractiveness as a business and investment opportunity.<sup>69</sup> This is a positive and reassuring view. It is also remarkable in the context of recent history. In 2020-2021, COVID-19 and the Nagorno-Karabakh conflict have dented Armenia’s economic output and investment profile. Given the business challenges faced by investors due to Armenia’s small market size, relative geographic isolation, weaknesses in the law and judiciary, and legacy of corruption, it is encouraging that most investors retain a constructive and positive view on Armenia as an investment location. Armenia has received respectable rankings internationally for its business environment and investment climate and investors recognize the progress being made to improve the environment for business. At the same time, they want action and progress on issues they raise.

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<sup>68</sup> [Invest Moldova: Automotive Components and Industry Overview](#)

<sup>69</sup> EBA Armenia: [Economic Outlook 2021 On-line Event](#)

According to investor feedback in the UNCTAD Investment Policy Review 2018,<sup>70</sup> and more recent comments by investors in 2021, Armenia has sound regulations, policies, and laws, but these are undermined by the need for more regular revisions, updating, and the lack of independence, capacity, or professionalism in key institutions, most critically the judiciary.

Specific issues for reform and action mentioned by investors are as follows:

**PUBLIC-PRIVATE DIALOGUE:** Several investors have raised concerns about the poor quality of this dialogue and on government responsiveness in addressing concerns among the business community. Investor meetings with the MOE in 2021 and other public sector representatives have been welcomed and commended. But a more structured and regular process of dialogue and communication seems desirable and essential to maximize business and investment opportunities.

This is a common issue in many countries. In earlier years, in some countries in Southeast Europe (Bosnia and Herzegovina, Moldova, N. Macedonia, Serbia and pre-EU accession in Bulgaria, Croatia, and Romania), the process of dialogue was strengthened by the establishment of foreign investor councils (including bilateral associations) to coordinate a collective view on issues impacting FDI. In Serbia, for example, the government/investor dialogue was greatly improved by an annual “White Book” produced by investors with the support of OECD that recorded and commended progress on investor concerns and documented views on priority issues for action in the coming year.<sup>71</sup> This greatly facilitated dialogue with government and individual ministries and agencies. The MOE and Enterprise Armenia should take a lead role in establishing this process of regular and documented dialogue on issues affecting investors and their businesses.

**GOVERNMENT OFFICIALS’ ABILITY TO RESOLVE PROBLEMS:** The ability of Armenian public sector officials to deal effectively and expeditiously with business issues is a matter of concern for some investors. This is an issue that arises in many countries. Representatives of U.S. entities have raised concerns about the quality of stakeholder consultation by the government with the private sector and government responsiveness in addressing concerns among the business community. Government officials have publicly responded to private sector concerns about perceptions of slow movement in the government bureaucracy as a function of needing to guard against corruption-related risks.<sup>72</sup> The existence of a more structured dialogue, as suggested above, could assist in addressing this issue.

**FIGHT AGAINST CORRUPTION NEEDS TO BE INSTITUTIONALIZED IN THE LONG TERM:** Foreign investors are concerned about the rule of law, equal treatment, and ethical conduct by government officials. The Government launched a high-profile anti-corruption campaign in April/May 2018. Armenia is one of the countries participating in the OECD Anti-corruption Network (OECD/ACN) for Eastern Europe and Central Asia, but not a party to the OECD Convention on combating bribery. Established in 1998, the OECD/ACN provides a regional forum for the promotion of anti-corruption activities, exchange of information, elaboration of best practices, and donor coordination. By institutionalizing and reinforcing its work in the long-term here, especially in critical areas such as judiciary, tax, customs, and law enforcement sectors, Armenia could respond better to investor concerns here and thereby enhance Armenia’s international image as a sound investment location.

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<sup>70</sup> UNCTAD: [Investment Policy Review of Armenia](#), 2018

<sup>71</sup> [Foreign Investors Council](#), Serbia

<sup>72</sup> U.S. Department of State: [2021 Investment Climate Statements: Armenia](#)

### **A UNIFIED AND ALIGNED “SINGLE POINT OF CONTACT” FOR FOREIGN BUSINESSES:**

This is needed to avoid multiple and sometimes differing advice and indications foreign businesses receive from different entities. In line with recommendations in chapter 5, Enterprise Armenia, with support from the MOE, should fulfill this role by institutionalizing it.

**FAILURE TO ENFORCE IPR:** The IPA in the MOE is responsible for granting patents and overseeing other IPR-related matters. Investor companies have reported that the investment climate is “tainted by a failure to enforce IPR.”<sup>73</sup> As Armenia seeks to boost existing investors and attract investment from existing and new investors, this factor could be a critical issue for investor decision-making. In the pharmaceutical sector, for example, IP has enabled the R&D of today's medicines. IPR, such as patents and regulatory data exclusivity, encourage and protect innovation and provide the needed incentives that drive R&D investments to areas of unmet medical need. Patents not only help pharmaceutical companies recoup investments, but they can also function as a shield against infringement claims. Strong patent protection can safeguard drugs from potential infringers. Without consent from the patentee, other competing companies cannot use, make, or distribute the invention. In brief, the legal and regulatory regime on IP and its efficient enforcement can be a vital factor for investors in many sectors and especially a country's record in protection and enforcement of IPR.

Despite the existence of relevant legislation and executive government structures, the concept of IPR remains unrecognized by a large part of the local population, according to some investor feedback. This feedback suggests that the onus for IPR complaints rests with the offended party. The police assert that most cases are settled through out-of-court proceedings. While the Armenian government has made some progress on IPR issues, strengthening enforcement mechanisms remains necessary. UNCTAD reports that low awareness and poor monitoring of IPR violations harm the business climate.<sup>74</sup>

**TRANSPARENCY OF THE REGULATORY SYSTEM:** Armenia's legislation on the protection of competition has been improved with several clarifications regarding key concepts, according to the U.S. Department of State. There have been some procedural improvements for delivering conclusions and notifications of potential anti-competitive behavior via electronic means. However, investor companies regard the efforts of the Competition Protection Commission alone as insufficient to ensure a level playing field. They indicate that improvements in other state institutions and authorities that support competition, like the courts, tax and customs, public procurement, and law enforcement, are necessary. Numerous studies observe a continuing lack of contestability in local markets, many of which are dominated by a few incumbents.

**BUREAUCRATIC PROCEDURES ON SAFETY AND HEALTH REQUIREMENTS:** These requirements in Armenia, mostly emanate from the Soviet period, and generally do not impede or restrict investment activities in Armenia. However, investors consider bureaucratic procedures to be sometimes burdensome, and discretionary decisions by individual officials may present opportunities for petty corruption.

**LEGAL SYSTEM AND JUDICIAL INDEPENDENCE - UNPREDICTABILITY OF COURT DECISIONS:** As indicated in the previous section on dispute resolution, Armenia has a hybrid legal system that includes elements of both civil and common laws. The laws regarding commercial and contractual matters are currently set out in the civil code. Thus, because Armenia lacks a

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<sup>73</sup> Ibid

<sup>74</sup> UNCTAD: [Investment Policy Review of Armenia](#), 2018

commercial court, all disputes involving contracts, ownership of property, or other commercial matters are resolved by litigants in courts of general jurisdiction, which manage both civil and criminal cases. Courts that manage civil matters may be overwhelmed by the volume of cases before them and are frequently seen by the public as corrupt. Despite the ability of courts to use the precedential authority of the Court of Cassation and the European Court of Human Rights, many judges presiding over civil matters do not do so, increasing the unpredictability of civil court decisions in the eyes of investors. Businesses tend to perceive that many Armenian courts suffer from low levels of efficiency, independence, and professionalism, which drives a need to strengthen the judiciary. Businesses have noted that many judges at courts of general jurisdiction may be reluctant to make decisions without getting advice from higher court judges. Thus, the public opinion is that decision may be influenced by factors other than the law and merits of individual cases.

**DISPUTE SETTLEMENT AND ADR MECHANISMS:** According to investors the Law on Foreign Investments does not contain specific provisions on access to domestic courts. Because the country lacks commercial courts and the use of ADR mechanisms is limited, most disputes involving contracts, ownership of property, or commercial matters are resolved by litigants in the courts of general jurisdiction.

**SHORTAGE OF WORKERS WITH VOCATIONAL TRAINING:** Considerable investment has taken place in the high-tech sector as companies take advantage of Armenian technology skills. Feedback from investors suggests a significant gap in availability of workers with vocational training. This issue was raised by both U.S. and European investors.

**REGULATORY ENVIRONMENT NEEDS TO BE PREDICTABLE FOR INVESTORS:** Investors recognize the government's authority and responsibility in the regulatory environment but seek an environment that is not ideally subject to frequent change and is unpredictable. This issue is closely related to improving the quality and regularity of communication between the government and investors.

**AIR CARGO TRANSPORTATION FROM ARMENIA:** Traffic difficulties at border controls on the Russian-Georgian border hinders Armenian trade. Armenia should potentially seek to expand infrastructure for better transport options by air cargo.

**ACCESS BY INTERNATIONAL WORKERS TO WORK IN ARMENIA:** The competition to attract skilled workers in certain areas is a global reality today. Most developed countries have special visa programs to facilitate this. This competition applies to the ICT sector and also to many other technology and emerging sectors. This issue needs close consultation with existing investors and a review of visa and administrative procedures involved.

**EDUCATION FOR ICT AND TECHNOLOGY SECTORS:** Many companies engage in education and training in these sectors. This is vital for future FDI and business growth. Coordination by the MOE and Ministry of High-Tech industry and close communication with investors is essential.

Investment policy should ideally systematically address all these issues and do so in close consultation and, in many instances, jointly working with the private sector. It is recognized that there is ongoing work and progress in many areas, but this is not evident to some existing investors that have raised questions on all of these areas. Armenia's progress in increasing FDI is highly dependent on continued investment by existing investors as well as attracting new investors. The experience and testimonials of existing investors are core to enhancing the investment climate and boosting FDI.

## 2.7 TEAM ARMENIA—PARTNERING AND COLLABORATION

### **WHOLE-OF-GOVERNMENT APPROACHES TO INVESTMENT POLICY AND PROMOTION:**

Competing for and successfully attracting FDI today demands effective horizontal policies and practices by governments. Countries successful in attracting investment have mastered a whole-of-government approach to investment promotion and facilitation. Investment policies and promotion with multiple objectives and involving many actors, from public sector firms to SMEs and multinationals, are a prime example of a whole-of-government approach.<sup>75</sup> While Enterprise Armenia has the lead role in packaging and presenting national, regional, and sectoral propositions to investors, it relies on others across government and public and private sectors to ensure Armenia's propositions are competitive and supportive of its FDI agenda. Engaging with and cultivating this wider network of support is an essential task for countries and investment promotion agencies that aspire to implement best-practice promotion.

The diverse range of constructive FDI policy responses and supports required by investors do not fit neatly within any single government ministry or agency. Investors increasingly expect public policies and services to be seamless and responsive to their needs and not be defined by administrative siloes. Good government is about joint action, where administrations work in a coordinated and collaborative manner across boundaries and provide single windows for investor interface with government. This is the approach of best-practice administrations in several countries and demands coordinated teamwork. Better outcomes are achieved by integrating cross-disciplinary perspectives and supports for investors.

**“TEAM ARMENIA” APPROACH AND PARTICIPANTS:** Extensive OECD research on investment promotion agencies (OECD, Eurasian, Middle Eastern, and Latin American countries) has shown that they need to work in close cooperation with numerous ministries, agencies, and institutions if they are to be effective in their operations. In some countries, the research shows this extend to up to 40 different institutions.<sup>76</sup> Given the nature of their activity, IPAs, including Enterprise Armenia, typically operate within a dense and complex network of stakeholders—both public and private. They operate at the cross-roads of policy and business: they build a public sector-driven agenda to generate economic and social benefits, but they primarily serve private companies, and that requires a good understanding of business models, firm-level motivations, and investor needs. IPA activity is also dependent on the overarching investment policy framework to which they contribute in terms of design and improvement. Their operations entail a wide range of activities and a “Team Armenia” approach.

**“TEAM ARMENIA” EXTENDS TO THE PRIVATE SECTOR:** The practical experience of highly successful investment promotion agencies has shown that the partnering and collaboration needed for success in investment policy and promotion extends beyond the public sector.<sup>77</sup> Significant collaboration, partnerships and joint working with a range of private sector investors, sector and industry associations, financial and R&D institutions, supplier firms and networks, regional authorities, and international institutions and bilateral donors are important elements of successful investment policy and promotion.

**PARTNERING AND COLLABORATION FRAMEWORK:** The term “Team Armenia” emphasizes the team dimension needed from its various partners. Collaboration, coordination, and cooperation lie at the core of interorganizational activities. The “Team Armenia” concept is not hierarchical, it is

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<sup>75</sup> OECD, 2015. [Policy Framework for Investment](#)

<sup>76</sup> OECD, 2018. [Mapping of Investment Promotion Agencies in OECD Countries](#)

<sup>77</sup> [www.idaireland.com](#) annual reports and strategies

about participants developing a systematic understanding, cross-communication, and culture of working together to achieve success in competing internationally to better attract and maximize the benefits of FDI. Examples of important collaborative activity by Team Armenia participants are shown after table 2.8.

**TABLE 2.8: PARTNERING AND COLLABORATING FOR SUCCESS IN PROMOTING FDI**

GOVERNMENT		
DEPUTY PRIME MINISTER AND MINISTRY OF ECONOMY		
Enterprise Armenia		All Ministries and State Agencies
Embassies/Consulates	Overseas Networks - IPA	Diaspora Networks
Regional Administrations	Free Economic Zones (FEZ)	Universities/Research
Private Sector Partners: Existing Investors, Chambers, and Sector Associations		
International Institutions such as OECD, UNCTAD, UNIDO, WB/IFC, and Bilateral Donors		

**POLICY ADVOCACY:** As the government agencies most in touch with the foreign and local investors, IPAs are generally well placed to be an important source of feedback to government policymakers. IPAs can advise on investment-friendly legislation and policies and administrative and regulatory issues.

**PROMOTING AWARENESS AND CONTACT WITH INVESTORS:** The MOFA and embassies and consulates, in coordination with Enterprise Armenia, have a key role in promoting awareness of Armenia, identifying target companies, making contact, and promoting investor/site visits.

**IDENTIFYING SUITABLE SITES AND BUILDING:** Ministries, state agencies, free zones, and regional authorities can facilitate Enterprise Armenia and investors through information and access to suitable properties.

**HUMAN RESOURCES AND SKILLS DEVELOPMENT:** Armenia's major competitive advantage is its skilled workforce. Ongoing development of education, skills development, training, and R&D requires understanding of future needs and collaboration by many actors. Team Armenia's knowledge and inputs to this process are vital.

**LINKAGE AND AFTERCARE:** Effective linkage and aftercare by Enterprise Armenia will depend on strong collaboration with other ministries and public/private partners to identify suppliers, sub-contractors, and facilitating expansion of existing investor projects.

**R&D, INNOVATION, AND KNOWLEDGE:** "Team Armenia" partnerships with universities and research institutions and promoting interaction with private sector in building stronger businesses are vital.

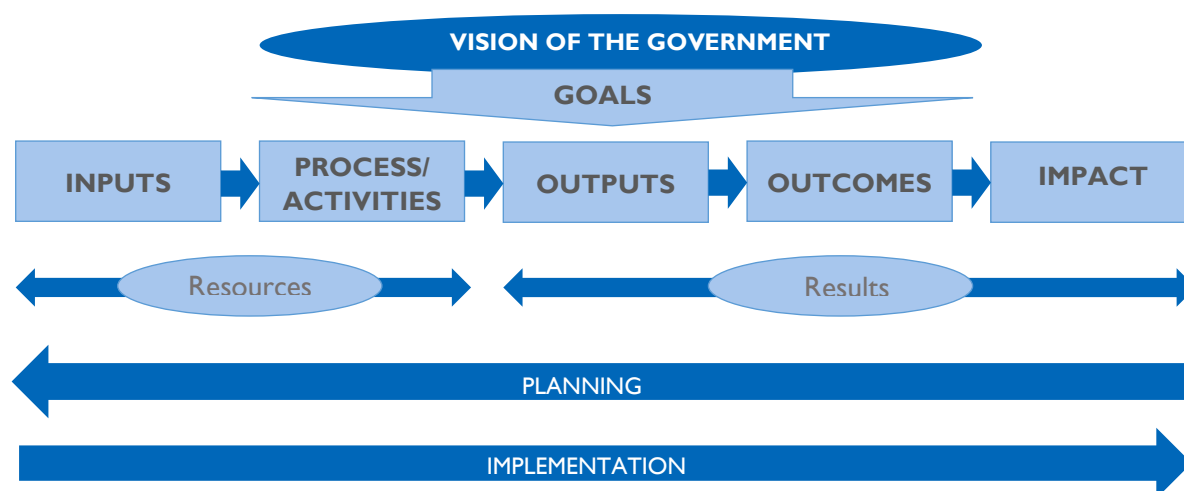
## 2.8 MONITORING AND EVALUATION

Monitoring and evaluation of investment policy and its performance are essential for its success and to improve its formulation and implementation. The MOE has the primary responsibility for policy and jointly works with Enterprise Armenia to ensure its proper monitoring and evaluation. Best practice investment policy and promotion demand a consistent and effective system with clear metrics to manage performance and measure results.



Monitoring and evaluation are critical to confirm if the policies are improving outcomes and bringing a better understanding of what works effectively and under what circumstances. It shows how government goals are being achieved and determines effective and efficient use of public funds and resources.

**FIGURE 2.5: MONITORING AND EVALUATION FRAMEWORK**



**VISION:** a high-level vision of what Armenia wants to achieve over the period 2021-2026.

**GOALS:** the specifying of metrics that translate the vision into measurable goals and targets.

**INPUT LEVEL:** the resources devoted to the policy, institutions, and programs—the ministry responsible for national policy, IPA, networks, and resources employed to implement a policy, such as the agency, staff, money, time, equipment, etc.

**PROCESS LEVEL:** refers to the activities that are undertaken to implement policy actions.

**OUTPUT LEVEL:** refers to the first level of results of the promotion and facilitation activities delivered by the agency and its partner networks.

**OUTCOME LEVEL:** refers to the direct results and consequences of the policy implemented. The outcome shows results in terms of new jobs created, exports and new markets, annual direct expenditure in the economy, the regional spread of projects, R&D and innovation investments, etc.

**IMPACT LEVEL:** looks at the long-term consequences of a policy initiative and assists in shaping the longer-term path for growth and development.

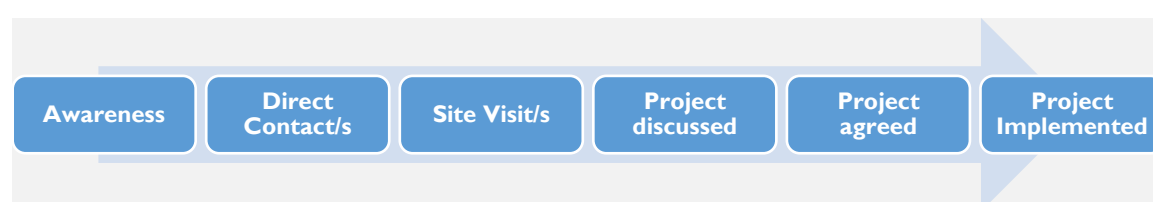
The monitoring and evaluation component of investment promotion should encompass three types of assessment:

1. Monitoring and evaluation of the IPA's own activities
2. Monitoring and evaluation of FDI projects
3. Monitoring and evaluation of impact of FDI on the economy.

**MONITORING AND EVALUATION OF IPA'S OWN ACTIVITIES.** Enterprise Armenia monitors its own investment promotion activity. A customer relationship management (CRM) system is under development for Enterprise Armenia, with support from EBRD, which is a crucial component of the IPA's monitoring and evaluation system. This is in line with global best practice.

Investment promotion to new investors requires numerous actors and activities; IPA activity includes creating awareness through indirect contact, direct contact, site visits, potential project identification, discussions, and implementation, as shown in figure 2.6. Each activity is an important step toward attracting a new investment project. A similar process applies to existing investors in Armenia, with less need for awareness creation. The post-project implementation stage is not shown in figure 2.6, but demands equally efficient monitoring (for example, aftercare and servicing, potential expansion projects, linkage, consultation, and advice).

**FIGURE 2.6: MONITORING ACTIVITY THROUGH ALL STAGES OF PROMOTION WITH INVESTORS**



The overarching policy goals for Enterprise Armenia were outlined at the start of this chapter. Translating these goals into specific indicators and sub-indicators is an important step.

**MONITORING INDICATORS:** Two categories of indicators are essential for best-practice monitoring:

**OUTPUTS:** operations indicators that relate to IPA promotion work from inquiries, promotion events, publicity, press contacts to contact with investors, projects identified, projects implemented, and aftercare and servicing, as shown in table 2.9.

**OUTCOMES:** concrete results in terms of number of projects attracted, sales, exports, jobs, and direct economic impact of such projects, as shown in table 2.9.

**TABLE 2.9: INTERNAL MANAGEMENT INDICATORS ON IPA ACTIVITY (TEMPLATE FOR CONSIDERATION)**

INQUIRIES, PROMOTIONAL EVENTS, AND ACTIVITIES
Number, source, and priority rating of inquiries
Number of promotional events, delegations met, ministerial missions
Number of mailshot campaigns, press releases, newsletters
New brochure editions, articles generated, calendar of events
The full range of activities needs to be determined and specified and summary reports on all activities must be maintained to clarify important follow-up actions (see range of potential promotion activities in earlier sections)
EXISTING COMPANIES — ARMENIA
Database of all FDI companies

– Database of FDI companies ≥ 50 jobs	This database is essential for planning meetings with companies and for mailshots, press releases, etc. Building such a database takes time. Immediate action should focus on larger companies. The IPA should list all substantial FDI companies as “client companies,” even ones with limited contact previously.
– Database of FDI companies ≥ 10 jobs	
Contact with first priority companies	
Contact with second priority companies	

IPAs should ideally maintain a database of all FDI companies (excluding small local market traders and investors). This can be segregated by employment size to focus more on best prospects for growth and investment. Priority companies for contact can then be established.

PRIORITY TARGET COMPANIES (EXISTING AND NEW)	IN PRIORITY REGIONS, SECTORS, AND SEGMENTS
Target companies identified	Number of companies, contacts, projects, requests, site visits, projects more defined and implemented should be carefully monitored on a weekly basis. This type of record of a 'pipeline of potential investment projects' is essential in “Best Practice” investment promotion. It should be noted that multiple site visits may happen as FDI project plans evolve.  While initially this monitoring may be in MS Excel format or similar basic recording (as in many IPAs), it should be developed into a CRM format that will enable better communication, sharing, and follow-up by departments and monitoring by management  This is primarily an internal management system.
Initial contact made	
Project interest expressed	
Project defined	
Servicing of information requests	
Site visit to Armenia proposed	
Site visit to Armenia undertaken	
Projects under discussion	
Projects more defined	
Projects implemented	
Existing FDI firms are typically the source of 50 percent of new FDI in a country. Therefore, establishing IPA systems and work plans to focus on these is critical. Equally, specific steps to identify, contact, and arrange site visits are crucial with new firms, including prospective investors.	
Under “best practice,” an IPA will establish an internal system that will track numbers of companies contacted, status of contact, progress to site visit, servicing of company, and eventual conversion of contacts to projects. This process applies to existing FDI companies and new companies contacted. Typically, these indicators would be reviewed weekly.	

**TABLE 2.10: INDICATORS OF ECONOMIC IMPACT OF FDI (TEMPLATE FOR CONSIDERATION)**

	2021	2022	2023	2024	2025	2026
I. Indicators						
I.1 Total number of Investment Projects						
I.1.1 Number of Greenfield Projects						
I.1.2 Number of Expansion Projects						
I.2 Percent of Investments in Regions						
2. Economic Impact of FDI Projects						
2.1 Sales						

2.2	Exports
2.3	Direct Expenditure in Economy
2.3.1	Payroll Costs by FDI Firms
2.3.2	Armenian Materials
2.3.3	Armenian Services
2.3.4	Direct Expenditure as Percent of Sales
3.	Annual Corporate Tax Payments
4.	Employment in FDI Companies
4.1	Full-time Job Gains
4.2	Increase in other Employment (part-time, contract, etc.)
4.3	Indirect Employment (estimated)

Source: IDA Ireland and Strategy Partners Ireland, 2021.

While most of the monitoring in table 2.9 is essentially internal management processes, it is important that the outcomes in table 2.10 are presented to the Government and also to the wider society to show the real results of investment policy and promotion.

**MONITORING AND EVALUATION OF ALL FDI PROJECTS.** IPAs should monitor and evaluate all investment projects. The framework of evaluation of **impact** of FDI, as outlined above, is conducted by a range of ‘best practice’ IPAs. Typically, this is a methodology that is developed over years, with, for example, a pilot project initially with 50-100 companies, and then wider surveys extended to all client FDI companies of the IPA. It is essential to have full consultation in advance with FDI companies before introducing the above systems. Companies need to be assured of the integrity of the survey and confidentiality of company data if they are to participate in such surveys. Only composite data and conclusions for all companies are normally published.

Introducing this system will give Armenia a much better insight into the direct economic impact of FDI projects and provide valuable insights into annual trends and progress.

As M&E systems are established in Armenia, there is another more complex econometric analysis that can be developed. For example, figure 2.7 presents four groups of companies (broken down by IPA assistance and investment location) for which IPAs need to collect data for this impact evaluation.

**FIGURE 2.7: GROUPS OF FIRMS FOR WHICH INFORMATION IS REQUIRED FOR MONITORING AND EVALUATION<sup>78</sup>**

A. Assisted by IPA locally-established firms (IPA’s data—CRM)	B. Non-assisted by IPA locally-established firms (IPA’s data, private data providers, and other government bodies)
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<sup>78</sup> OECD Investment insights. Monitoring And Evaluation: A Brief Guide for Investment Promotion Agencies

C. Assisted by IPA non-locally-established firms (IPA's data—CRM)	D. Non-assisted by IPA non-locally-established firms (Private data providers and international organizations)
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This is a more challenging and complex methodology and outlined in the OECD discussion report. This should be seen as a future development of M&E and for review after the initial framework described above is established.

**IMPACT OF FDI ON THE ECONOMY.** Besides learning about the impact of their own activities, many IPAs monitor and evaluate the impact of FDI and multinational enterprises (MNEs) on the local economy more generally to guide their strategic goals and orientation. This may entail the analysis of sectoral or regional distribution of FDI, its technological or skills content, and the impact of foreign-owned firms on job creation, wage and salary levels, exports, tax revenue, or innovation. Several different micro and macro-level data sources can be used for that purpose.<sup>79</sup> This assessment is more complex and requires more data and skills. The government must decide who will carry out the impact assessment of FDI on the economy, the MOE or Enterprise Armenia. In many best practice IPAs, the detailed analysis and gathering of data is conducted by the IPA—partly because of its close and regular relationships with investor companies—with oversight and supervision by the responsible Ministry.

Establish a robust monitoring and evaluation system is an immediate task for the MOE and Enterprise Armenia. The appropriate legal framework that will define the goals of the system, the actors, their functions and responsibilities, the scope of the data collected, and the management of data flows is the first step. It is necessary to develop the logical framework (log frame), define the final, intermediate-direct results of FDI for the monitoring and evaluation, the indicators for measuring those results, and the baseline and target values of the indicators.

In order to create the proposed system, relevant specialists and resources should be available to the MOE and Enterprise Armenia. This Roadmap recommends a new “Planning and Assessment Department” in Enterprise Armenia to ensure the proper institutionalization of FDI monitoring and evaluation. The quality and the coverage of the investment statistics as well as the capacities of the Statistical Committee of Armenia, which is responsible for FDI statistics, should also be enhanced to ensure efficient work with Enterprise Armenia.

## 2.9 RECOMMENDATIONS

Table 2.11 summarizes the gaps and recommendations for the MOE and Enterprise Armenia to build a better Investment Policy Framework.

**TABLE 2.11: SUMMARY OF GAPS AND RECOMMENDATIONS**

GAPS/CONSTRAINTS/RISKS	RECOMMENDATIONS
<b>INVESTMENT POLICY</b> Armenia lacks a defined national investment policy. Investment policy vision and goals—not clearly stated and publicized. This is critical for communicating Government vision and policy internationally and to civic society. A policy goal, which can compare with	1. Prepare an investment policy national document in line with the Government Program 2021-2026 and review annually for progress and revision. The ministry responsible for investment policy should state action that will address:

<sup>79</sup> Ibid

competitor and adjacent countries, does not exist, even though it is fundamental to increased FDI

Policy and promotion goals need to be integrated and coordinated

A “Team Armenia” approach needs to be built. National teamwork and collaboration can contribute to significant change in investment. Team Armenia should consist of the wide network of ministries, agencies, institutions, and private sector that Enterprise Armenia will need to jointly work with as it competes for international investment. Building a culture of cooperation and effective joint working is vital for success in attracting FDI. This is a common feature and practice with numerous countries and especially peer countries, which has shown major success when competing for FDI.

- Armenia’s vision, objectives, and goals for investment (competing with comparator and adjacent countries such as in terms of number of projects attracted per head, in the South Caucasus, S.E. Europe, and Central Asia and to show measurable progress in matching small countries in the EU by 2026).
  - Emphasize the need for more value-added production and business functions, new internationally traded services, linkage with domestic companies;
  - focus on high growth sector—pharma, biotechnology, and life sciences.
  - A “Team Armenia” approach in policy and promotion—success comes from effective teamwork and frequent joint action.
  - Targets in Enterprise Armenia’s Strategic Plan 2021-2026 should aim for new project numbers, increase in gross capital formation, expansion projects by existing investors, and new linkage projects between FDI form and domestic suppliers.
  - Emphasize the central role and competitive advantage of the human talent.
  - Provide of appropriate, innovative, and competitive property solutions for investors.
  - Policy initiatives on more access to diaspora skills and investments.
  - Focus more on investors in adjacent countries and expansion projects.
2. Formulate and publicize a policy statement for investors.

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## PUBLIC-PRIVATE DIALOGUE

The quality and regularity of government and private sector dialogue should be improved. Structured and agreed dialogue with the private sector is missing.

Experience shows existing investors can deliver 50 percent of new FDI projects. Regular dialogue with them is vital.

Concerns and issues raised by investors, as detailed in this document, should be effectively addressed via public-private dialogue mechanisms. By this action, Government, MOE, and Enterprise Armenia can demonstrate support for investors and gain from their advice.

1. Put in place a structured and agreed-upon mechanisms and platforms of public-private dialogue.
2. MOE and Enterprise Armenia, as a matter of urgency, should seek to plan/structure a new level of public-private dialogue and ensure action on the various issues mentioned.
3. Investment policy and promotion should ensure the positive views of existing investors are widely publicized.

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## LEGAL AND REGULATORY ENVIRONMENT FOR INVESTORS

Law on Foreign Investments needs some refining for additional clarity.

Develop amendment/s to the Law on Foreign Investments to address the gaps and issues discussed in the report, such as clear provisions on the responsibilities of MOE and Enterprise Armenia.

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## ARMENIA'S POLICY IN THE INTERNATIONAL RANKINGS

1. Benchmarking with peer countries is not conducted. This is a fundamental activity for MOE and EA; to know how successful comparators are and why, and matching them.
2. Continuous improvement in international rankings, such as OECD restrictiveness index and others. Accessing OECD expertise and extensive comparative information to inform and guide better policy
3. Continuing progress on Business Enabling environment improvement. Investors need reassurance that efforts are being made to improve the business environment

1. Monitor FDI rules and restrictions and the OECD Index. Seek to benchmark with peer countries and match performance with countries performing better.
2. Seek to engage with OECD in its investment (MNE Guidelines) and restrictiveness instruments.
3. Conduct benchmarking to determine annual comparative ranks with peer countries. Instigate deeper investigation on methods and processes in other countries that Armenia can learn from.
4. The Government has announced its commitment to address deficiencies in improving ranking in "Doing Business" reports or its replacement. Seek to contribute benchmarking feedback here.

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## INVESTOR DISPUTE SETTLEMENT, ARBITRATION, AND BUSINESS OMBUDSMAN

1. Better information on alternate dispute resolution mechanisms needed
2. Enterprise Armenia and MOE could contribute more to dispute resolution through the "policy advocacy" functions.
3. Armenia does not have Business Ombudsman and considers this option (non-judicial) to play this role in dispute resolution.

1. Alternate dispute resolutions mechanisms should be examined in consultation with the private sector and guidelines developed for publication or larger public outreach.
2. Enterprise Armenia and MOE can potentially play a stronger role in facilitating investor dispute resolution through mediation and advocacy, as well as with their links to other Ministries and agencies. This requires strengthening of EA (budget and staff increases). Through direct contact, Enterprise Armenia and MOE could potentially assist with mediation and introduction of expert advisors, and through the Investment Council structure proposed in chapter 4 of this report.
3. The introduction of a Business Ombudsman should be driven primarily in response to private sector demand. MOE and Enterprise Armenia should initiate review of this with existing investors to assess demand. Ideally such an institution, if established, should work alongside EA, possibly in the same offices to facilitate communication on investor contacts and issues.

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## STRENGTHENING PARTNERSHIP WITH EXISTING FDI COMPANIES

1. More focus needed on existing investors - to maximize new FDI from them. The rationale for this is evident, given the experience of many countries where over 50 percent of new investment projects come from existing investors,
2. Lack of private sector representation on policy advisory groups or boards. Private sector can bring sectoral knowledge and better understanding of key issues that will assist policy and promotion.

1. Establish a program of regular and constructive dialogue with major FDI investors to explore prospects for new business functions and expansion investment.
2. Establish better consultation with private sector representatives, including international institutions, embassies, etc., to learn of issues negatively impacting investors.
3. Conduct company development meetings: linked to the aforementioned consultations policy, Enterprise Armenia should seek to develop an agenda of action with individual companies on growing their businesses and provide support. This would require training and coaching of staff.
4. Seek investor participation in policy advisory groups, including in Investment Council on issues of concern to investors; for example, availability of skills, infrastructure issues, supply chains, etc.

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## PROPERTY SOLUTIONS FOR INVESTORS

Essential infrastructure for competitiveness is critical for success. This is a fundamental issue for all investors (utilities, transport access, good telecommunications) and can determine or speed up investor decisions on investment projects. Property solutions for investors need to be developed considerably under the investment policy. Many countries increasingly compete on this specific issue of

Access to suitable industrial sites and buildings is critical for investors. MOE and Enterprise Armenia need to build this program within Enterprise Armenia so that Armenia competes better in attracting new projects.



providing 'ready to start' locations and factories. Armenia should seek to match such competitor countries.

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## ESTABLISHING INFORMATION STRATEGY HIGHLIGHTING THE COMPETITIVE ADVANTAGE

Enhancing sector profiles, company case experiences, and other information materials are key components of image development and publicizing sectors. They will often attract other sector companies that wish to see what competitors are doing in different countries.

Armenia lacks investor testimonials. Investor profiles and testimonials are powerful endorsements of investment locations. They are essential for promotion.

Seek support from international consultants (including in Armenia—PWC, EY, Deloitte, Grant Thornton, etc)) and selected FDI investors in preparing visual sector profiles to illustrate scale and quality of sectors (for example, ICT, textiles and garments, pharma).

Use sector profiles for contact to media, embassies, networks, and diaspora to gain more publicity for investors and opportunities in Armenia.

Prepare, publish, and disseminate a series of quality profiles of existing investor operations in Armenia. Consultation and agreement should be sought with selected investors.

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## AVAILABILITY OF PEOPLE AND HUMAN SKILLS/TALENT

1. Attracting global talent is common practice in investment promotion nowadays. More policy emphasis and innovation on skills development is required.
2. With the growth of technology in manufacturing and services, there is a burgeoning demand for specialist skills. National investment policy needs to ensure effective response here.
3. No policy groups on expert skills are actively contributing to creating Armenia's competitive advantage. Individual countries have set up specialist groups to deepen their knowledge and response to building expert skills.
1. Investment policy should emphasize the central role and competitive advantage here.
2. Visa regimes: Ensure that existing immigration systems facilitate entry of experts in key areas, such as ICT, technology, biotechnology, pharma, and business services.
3. Undertake policy advocacy on human resource issues/training/education to relevant ministries as information is gained from contact with FDI companies and other enterprises.
4. Consider the need for specialist work groups on future skills needs and policy actions needed; for example, "Expert Group on Skills," as in some other countries. This subject may be already covered by existing policy structures, but MOE should keep this in mind.
5. Consult with High Commissioner of Diaspora on communicating information to diaspora groups on labor and skills needs and job openings in existing FDI companies.

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## DIASPORA

Strong policy initiatives on more access to diaspora skills is needed. Armenia has taken significant steps in working with the diaspora, similar to countries like Israel and Ireland. There may be opportunities to better inform the diaspora of job opportunities through links with investors on their skills needs.

1. Maintain close links with the High Commissioner of Diaspora and other relevant ministries in communicating on FDI progress and providing promotional material on FDI.
2. Encourage and support diaspora events that deal with FDI opportunities, for example, provide presentations, share company case experiences, press kits, etc.
3. Support the development of specific diaspora case experiences that may stimulate interest in new FDI projects or links to existing investors.
4. Take specific actions, like in the other countries, to source people with expertise for employment in their countries including:
  - Seeking job specifications for people required in advance from prospective investors
  - Using international recruitment consultants to identify potential employees from the diaspora
  - Placing small ads in sector and specialist media in, for example, California and Southern Germany or locations where diaspora is concentrated.

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## TARGETING SECTORS AND COMPANIES

- I. The Armenian policy should consider the following:
  - More value-added production and business functions. In contacts and discussions with existing and potential investors most countries seek to attract all business functions, manufacturing/production, purchasing, marketing, technical support, customer service, logistics/distribution
  - New internationally-traded services. The majority of global investment projects today are in the services sector. The nature of their service products means they are open to more investment locations and not reliant on traditional transport infrastructure.
  - High-growth sector—pharma, biotechnology, life sciences. Armenia has no international reputation for expertise and investment canters in these sectors. Policy should ideally make a statement on future national investment plans to address this. It represents a direction and guide to Enterprise Armenia investment promotion strategy.
2. Proactive and country wide programs on linkages with domestic companies are missing. Countries like the Czech Republic have demonstrated that substantial new investment projects and local purchasing can be developed through effective linkage programs.
3. Armenia needs to be focused more on international investors in adjacent countries and seek expansion projects. The rationale for focusing on these companies is two-fold (a) they are familiar with the wider region and (b) many will eventually have expansion projects that could potentially move to adjacent or more competitive investment locations.
- I. Focus on high-value manufacturing and services: In all contacts and dialogue with existing and prospective investors, seek to encourage extension of their businesses into high-value manufacturing and service functions. For example, R&D, logistics and distribution, sales and marketing, regional HQs, etc.
2. Focus more on internationally traded services: Armenia has excellent examples of successful service companies. Seek more service company projects and focus more on other high-growth service sectors; for example, medical services and devices, hospital supplies, etc.
3. Strengthen linkages between FDI companies and domestic suppliers: Establishing a structured program on linkage should be a target of investment policy.
4. Focus on existing FDI companies: As stated above, this should be top priority. A clear database of the major companies should be maintained for regular communication.
5. Seek new companies in Armenia's target sectors: Armenia has a successful history with these sectors. Identifying new prospects in the same sectors should be a priority task. Prospects here should include supplier companies, sister companies, etc.
6. Identify FDI companies in Eastern Europe and neighbouring countries: Given the trend of FDI projects moving eastwards, action should be taken to identify such companies for new investment.
7. Focus on high-growth sectors: Prospective investors may emerge in a range of high-growth sectors, pharmaceuticals, biotechnology, life sciences (medical devices, clinical trials, and hospital supplies), new forms of business, and financial services. Research on prospective investors seeking a base for Eurasian and Middle East markets needs to be taken.
8. Keep database of company contacts: An important task in policy and promotion is the creation and maintenance of a clear database of companies so that effective promotion and direct contacts can be pursued. This can be linked to the planned CRM.
9. Clusters and ecosystems: The establishment of cluster-support frameworks should be examined and initiated as a matter of policy. This might involve "Cluster Advisory Boards" to drive future development and ecosystems.

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## MONITORING AND EVALUATION—BETTER SYSTEM NEEDED

Armenia does not have a monitoring and evaluation system for investment policy and promotion even though this is a central feature of best practice policy and promotion. It is needed at two levels, firstly, to manage and oversee internal agency operations (outputs) and, secondly, to measure the direct economic inputs of investment projects and their contribution to national development (outcomes).

- I. Establish a robust monitoring and evaluation system is an immediate task for the MOE and Enterprise Armenia. The appropriate legal framework that will define the goals of the system, the actors, their functions and responsibilities, the scope of the data collected, and the management of data flows is the first step. It is necessary to develop the logical framework (log frame), define the final, intermediate-direct results of FDI for the monitoring and evaluation, the indicators for measuring those results, and the baseline and target values of the indicators.
  2. Improve the country FDI statistics to collect, measure, and evaluate the investment policy and promotion as recommended in this Roadmap.
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## CHAPTER 3. INVESTMENT INCENTIVES FRAMEWORK

This chapter describes the role of investment incentives in assisting Armenia to attract investment and develop a package of proposals to enhance Armenia's available investment incentives with a view to support investment promotion, attraction, and facilitation.

To achieve this, the following tasks were identified and carried out:

- Analysis of existing investment incentives and the taxation regime in Armenia
- Analysis of countries that are potential competitors to Armenia for investment
- Identification of gaps in Armenia's incentives regime
- Outlining of several types of Global Best-Practice incentives that are used globally and the principles underpinning why they are offered
- Recommending investment incentives aimed at enhancing Armenia's competitive advantage for investment, based on Global Best Practice and what has proven successful elsewhere. These may apply to qualifying private sector investments, especially new (greenfield) investments, or significant expansion of existing investments, but are likely to be particularly relevant to FDI.

The following approach is used in this chapter:

**ANALYSIS OF TAXES IN ARMENIA AND OTHER COUNTRIES IN THE REGION:** Analysis of the taxation system in Armenia compared with tax regimes in countries of the region, which included Russia, Kazakhstan, Kyrgyzstan, Belarus, Georgia, Moldova, Ukraine, Turkey, and Iran.

**REVIEW OF INVESTMENT INCENTIVES IN ARMENIA AND PEER COUNTRIES:** This review included an analysis of the investment incentive system in Armenia and a summary of investment incentives in actual and potential comparator countries, including Belarus, Estonia, Georgia, Hungary, Kazakhstan, North Macedonia, Serbia, Russia, and Ukraine, and identified gaps in the Armenian incentives regime. The comparator countries were selected from the region and some countries in Eastern Europe at a similar stage of development based on the rationale that IPAs compete most directly for investment with other countries in their immediate area or region.

**RECOMMENDATIONS—RATIONALE:** This provided the rationale to identify criteria for awarding incentives in Armenia, based on analyses of Armenia and comparator countries and Global Best Practice. Based on this, a number of recommendations for investment incentives for the Government of Armenia's (GOAM's) consideration are provided. This includes options based on a division of sectors into Priority Sectors and Standard Sectors and addressing some key incentive requirements from investors.

## 3.1 INVESTMENT INCENTIVES REGIMES IN ARMENIA

### 3.1.1 TAXATION SYSTEM IN ARMENIA

The taxation system in Armenia consists of taxes and contributions. According to the Tax Code of the Republic of Armenia (TC), there are seven state taxes and two local taxes.<sup>80</sup> The following types of taxes and contributions are considered the most common for potential investors:

**TURNOVER TAX:** During the tax year, all resident taxpayers with sales turnover for all types of activities not exceeding AMD 15 million (except for some types of economic activity) must pay a Turnover Tax, which replaces VAT and Corporate Income Tax.<sup>81</sup> The rate of Turnover Tax varies between 1.5 and 25 percent, depending on the type of activity. For example, for the processing industry, Turnover Tax is 3.5 percent, and 6 percent for public catering activities.<sup>82</sup>

**VAT:** During the tax year, all taxpayers with sales turnover for all types of activities exceeding AMD 15 million must pay VAT at 20 percent.<sup>83</sup>

**CORPORATE INCOME TAX:** Corporate Income Tax must be paid by taxpayers operating under the common taxation system (those who do not pay Turnover Tax). Corporate Income Tax, except in certain cases, is at 18 percent.<sup>84</sup>

**INCOME TAX:** Income Tax must be paid by both resident and non-resident individuals. Depending on the type of income, the rate of income tax may substantially vary. For example, Income Tax for salaries and other equivalent fees is 22 percent, which is intended to gradually reduce to 20 percent over the following years (from January 1, 2023).<sup>85</sup> For interest income, the rate is 10 percent and 5 percent for dividends.<sup>86</sup>

**SOCIAL CONTRIBUTION** is a targeted payment made to the state budget, intended to replenish mandatory pension funds. Social contribution is paid by hired employees and natural entities working under civil-legal contracts. In 2021, social contribution for a salary of up to AMD500,000 was at 3.5 percent of the salary. If the salary is above AMD500,000, the difference between 10 percent of the salary and AMD32,500 is paid.<sup>87</sup>

It should be noted that, in Armenia, the employer is the tax agent for hired employees. In many cases, the income tax is de facto part of the employer's tax burden since, according to the common practice, the salary is purely the subject of negotiations between employer and employees.

The rates of main taxes applied in Armenia are summarized in Table 3.1 below.

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<sup>80</sup> TC, Article 7

<sup>81</sup> TC, Article 253

<sup>82</sup> TC, Article 258

<sup>83</sup> TC, part 2 of Article 254

<sup>84</sup> TC, part 1 of Article 63

<sup>85</sup> TC, part 1 of Article 150

<sup>86</sup> TC, part 5 and 8 of Article 150

<sup>87</sup> Law on Funded pension system, part 8.1 of Article 81

**TABLE 3.1: RATES OF MAIN TAX TYPES IN ARMENIA, 2021**

TYPE OF TAX	RATES (PERCENT)
Turnover Tax	1.5 – 25
VAT	20
Corporate Income Tax	18
Income Tax	22
Social contribution	3.5 – 10

Source: TC, <https://rb.gy/qldbwy>

## TAX AND OTHER INVESTMENT INCENTIVES IN ARMENIA

**TAX INCENTIVES.** Two types of tax incentives for investments are defined by the law:

- (1) Tax benefits<sup>88</sup> defined by the law—TC<sup>89</sup>
- (2) By defining another procedure of calculation or payment of the tax, which can be established only by the law—TC.<sup>90</sup>

A taxpayer may submit a waiver for the right to use the tax benefit<sup>91</sup> to the tax authority. All tax incentives offered by Armenia are summarized in table 3.2 below.

**TABLE 3.2: TAX INVESTMENT INCENTIVES IN ARMENIA**

CORPORATE INCOME TAX
<ol style="list-style-type: none"> <li>1. <b>AGRICULTURE TAX EXEMPTION:</b> Agricultural production is exempt<sup>92</sup> until December 2024.</li> <li>2. <b>Accelerated Depreciation.</b> Accelerated depreciation of fixed assets and intangible assets for corporate income tax purposes.<sup>93</sup> The minimum depreciation period of fixed assets imported or acquired (constructed, processed) within the framework of investment programs selected by GOAM, as well as GOAM-approved business programs, is determined at the discretion of the resident corporate income taxpayer, but should not be less than one year.</li> </ol> <p><b>CORPORATE INCOME TAX BENEFIT:</b> In case of a decision on liquidation of the corporate income taxpayer—investments made by the participants (shareholders, equity holders, members) in the own capital of the corporate income taxpayer as well as of a positive difference of the offering price and the nominal value of stocks, shares or units of a corporate income taxpayer shall not be deemed income for taxpayers for the purpose of determination of corporate income tax base.<sup>94</sup></p> <ol style="list-style-type: none"> <li>3. <b>DEDUCTION OF DIVIDENDS:</b> For determining the resident taxpayer's tax base, dividends are deducted from gross income, which may be attractive for subsidiaries of non-resident companies.<sup>95</sup></li> <li>4. <b>R&amp;D DEDUCTION:</b> For the purpose of determining the tax base for resident corporate income taxpayers, as well as non-resident corporate income taxpayers carrying out activities in Armenia through a permanent establishment, the gross income shall be deducted in the amount of the expenses made on scientific research</li> </ol>

<sup>88</sup> TC Article 4, paragraph 37

<sup>89</sup> TC Article 4, paragraph 37

<sup>90</sup> TC Article 1

<sup>91</sup> TC Article 19

<sup>92</sup> TC, Article 126

<sup>93</sup> TC Article 121

<sup>94</sup> TC Article 108

<sup>95</sup> TC Article 123, part 2

and/or experimental design works and services carried out immediately by the corporate income taxpayer or upon the order thereof, in the full amount thereof during the tax year when those expenses were made.<sup>96</sup> This incentive exists in addition to the VAT incentives related to R&D operations.

5. **CORPORATE INCOME TAX REDUCTION FOR CREATING NEW JOBS (except trade and financial sectors):** For resident-owned businesses, and with approval of the investment projects by GOAM, corporate income tax for the launch year and five subsequent five years is reduced up to 100 percent of wages and payments paid for newly-created jobs in the given tax year; but this relief cannot exceed 30 percent of the total corporate income for that year.<sup>97</sup> Corporate income taxpayers in the fields of trade and financial operations are not eligible for this incentive.
6. **TAX EXEMPTION FOR SECURITIES TRANSACTIONS:** Non-resident corporate income taxpayers shall be exempt from paying corporate income tax
  - (1) in respect of the incomes derived from the dividends received from the stocks listed in the stock exchange functioning in Armenia, as well as from the alienation of the mentioned shares, exchange with other securities, or other similar transactions;
  - (2) in respect of the incomes in the form of interest or in the form of discount of bonds listed in the stock exchange functioning in Armenia, as well as from the alienation of the mentioned bonds, exchange with other securities, or other similar transactions;
  - (3) in respect of the incomes with regard to the borrowing provided to the resident legal person, provided that the given borrowing was completely financed due to the placement of bonds issued in equal terms and is considered to be a measure for securing the bonds, and that these bonds are admitted to trading on a regulated market operating in Armenia.<sup>98</sup>
7. Armenia stipulates to eliminate double taxation for resident taxpayers by allowing residents to deduct the amount of tax paid in another country from the calculated total corporate income tax accrued in Armenia. At the same time, the TC<sup>99</sup> also allows the business entities, if they have suffered losses in Armenia in the current year and therefore have not been able to fully offset the corporate income tax paid abroad, to retain the unused part of the offset. This regulation is doubly beneficial for Armenian subsidiaries of foreign companies (for all Armenian companies) because in addition to the above-said, according to the TC, they can carry forward the tax losses of the current year taken in Armenia to the subsequent five years.<sup>100</sup>

## VAT

8. **VAT DEFERRAL:** For investment projects, VAT payments for imported goods exceeding AMD300 million are deferred for three years. Business entities are selected by GOAM according to established procedure.<sup>101</sup> GOAM also approves those programs that have a multiplying effect on the economy and promote employment.<sup>102</sup>
9. **VAT ZERO RATING:** Zero rating in Armenia applies to goods and services exported under “Export” and “Re-exportation” customs regimes.<sup>103</sup>
10. **VAT MEDICAL EXEMPTIONS:** VAT exemption of the donated blood and its components, breast milk, prosthetic orthopedic accessories, sales of medical equipment and medical products, sales of products produced by patients, implementing works and delivering services in medical institutions within the framework of healthcare and health services.<sup>104</sup>

<sup>96</sup> TC Article 121, part 6

<sup>97</sup> TC 127, part 1

<sup>98</sup> TC Article 126, part 5.1

<sup>99</sup> TC Article 20, part 4

<sup>100</sup> TC Article 123, part 1, paragraph 4

<sup>101</sup> TC Article 79

<sup>102</sup> GOAM Decree N1225-N issued on October 5, 2017, on procedure for selecting organizations and individual entrepreneurs that are implementing investment programs, paragraphs 7 and 8

<sup>103</sup> TC Article 65, part 2, point 1 and 2, Article 64, part 2, point 36

<sup>104</sup> TC Article 64, part 2, GOAM Decree N-1317-N issued on defining the scope of privileges on exemption from VAT

11. **VAT EXEMPTIONS FOR GOODS IN TRANSIT:** Armenia is a transit hub, and the goods transported from third countries to the EAEU through Armenia are exempt from VAT if the re-exportation of goods from Armenia, or the exportation of goods produced as the result of reprocessing of the imported goods to the EAEU countries is performed within 180 days after the initial importation.<sup>105</sup> This benefit applies to the economic operators defined by the EAEU Customs Code, or if the GOAM has approved the business plan of the given business entity. It should be noted that the customs legislation provides certain procedural benefits for economic operators, such as easier admittance to customs simplifications. Currently, no economic operator is registered with the Register of Economic Operators.
12. **VAT R&D EXEMPTION:** Carrying out scientific and research activities in conformity with the criteria defined by the Government shall be exempt from VAT..<sup>106</sup> There is no maximum limit for this benefit.
13. **VAT ALIENATION OF STOCK OWNERSHIP EXEMPTION:** Alienation of the right of ownership over a share or unit in the authorised or share capital of the organization and supply of goods and/or provision of service within the framework of reorganization of the organization carried out as prescribed by law is exempt from VA.<sup>107</sup>
14. **VAT FOR NON-RESIDENT OPERATIONS:** If a non-resident organization that does not have a permanent establishment in Armenia conducts business transactions in Armenia, the reverse charged VAT principle is applied. That means its Armenian counterpart accrues VAT to the state budget instead of this company and issues the primary accounting document/invoice containing the VAT calculation.<sup>108</sup>

## CUSTOMS DUTY AND EXPORT DUTY

15. **CUSTOMS DUTY EXEMPTIONS:** Exemption on payment of customs duty for importing equipment and intermediate goods from a non-EAEU member country that cannot be replaced by goods and equipment produced in EAEU countries within the scope of investment projects in the priority sector of Armenia's economy and exceptionally in the territory of Armenia.
16. **CUSTOMS DUTY EXEMPTIONS:** Exemption on payment of customs duties for importing goods to FEZ has to be done under "Free customs zone" customs procedures.<sup>109</sup>

## EXCISE TAX

17. **EXCISE TAX FOR NON-RESIDENT OPERATIONS:** The organisation or the individual entrepreneur producing or packaging goods shall be deemed to be an excise taxpayer with respect to excisable goods, produced or packaged from the raw material provided by the non-resident organization lacking a permanent establishment or the non-resident individual entrepreneur lacking a permanent establishment based on contracts concluded with them.<sup>110</sup>

## MULTIPLE TAXES

18. **REDUCED INCOME TAX FOR START-UP IT COMPANIES:** Exemption from Corporate Income Tax and reduction of the Income Tax rate (on salaries) to 10 percent for the IT sector start-up companies until end of 2022, except the branches and representations of foreign companies.<sup>111</sup>
19. **BORDER AREA TAX EXEMPTIONS:** VAT, Turnover Tax, , and Corporate Income Tax exemptions in border-adjacent communities of Armenia.<sup>112</sup> The list of communities is approved by GOAM.<sup>113</sup>

<sup>105</sup> TC Article 64, part 2, paragraph 37

<sup>106</sup> TC Article 64, part 2, paragraph 3, GOAM Decree N-772-N issued on July 6, 2017 defining the scope of privileges on exemption from value added tax

<sup>107</sup> TC Article 64, part 2, paragraphs 32 and 33

<sup>108</sup> TC Article 56, part 7

<sup>109</sup> Customs Code of EAEU, article 201 and Law on FEZ, article 12

<sup>110</sup> TC Article 83, part 3

<sup>111</sup> Law on IT Sector State Support

<sup>112</sup> Law on Tax Exemptions of Activities Carried Out in Border Adjacent Rural Communities

<sup>113</sup> GOAM Degree No. 30 issued on January 15, 2015



20. **REGIONAL TAX EXEMPTIONS:** Exemption from VAT, Corporate Income Tax, and Income Tax for purchase of real estate for operations in Dilijan community and adjacent territories of the Tavush Marz of Armenia within the scope of investment projects above approximately \$4 million.<sup>114</sup>
21. **FEZ TAX EXEMPTIONS:** Operators of the FEZ are exempt from Corporate Income Tax, value added tax, property tax, customs duty.<sup>115</sup> Provision of services to an organizer of FEZ and to an operator of FEZ, performance of works for the organizer of FEZ and operator of FEZ, supply of goods within the territory of FEZ is exempt from VAT.<sup>116</sup>
22. **INDUSTRIAL ZONES TAX EXEMPTIONS:** In general, industrial zones receive tax incentives, such as corporate tax, income tax (except on salaries paid to employees), property and land tax (immovable property tax from 2021), and financial support and consulting support. The type and size of benefits provided for each industrial zone shall be defined by law on industrial policy.<sup>117</sup>
23. **REIMBURSEMENT OF VAT AND EXCISE TAX:** If the amount of the VAT and Excise Tax on the input transactions exceeds the amount of the VAT on sales/output transactions, these reimbursable amounts are returned from the state budget to the business entity's bank accounts every month.<sup>118</sup>

## CASH GRANTS/SUBSIDIES

### Agricultural sector financial assistance (for more than AMD1 billion investments)

1. **FINANCIAL ASSISTANCE FOR ESTABLISHMENT OF VINEYARDS, INTENSIVE FRUIT GARDENS, AND BERRY ORCHARDS CULTIVATED WITH MODERN TECHNOLOGIES:** GOAM provides financial assistance through subsidization of loan interest or compensation of capital costs. The financial assistance is provided for vineyards, intensive fruit gardens, and berry orchards of the size from 0.5 to 100 hectares. In case of loan, at zero percent interest rate, with a repayment term of eight years, of which five years is a grace period. In the case of cost compensation, GOAM pays 50 percent of incurred capital costs.<sup>119</sup>
2. **FINANCIAL ASSISTANCE ON INTEREST RATES ON LOANS PROVIDED TO THE AGRICULTURAL PROCESSING SECTOR FOR ACQUISITION OF AGRICULTURAL RAW MATERIALS:** GOAM subsidizes the interest rates on targeted loans provided to legal entities and individual entrepreneurs operating in the agricultural processing industry. The principal amount of loan for each agricultural product varies in a range of AMD1 to 4 billion. Loans for acquisition of grapes are available at zero percent interest with a maximum repayment term of three years and a grace period of 12 months. Loans for the acquisition of agricultural raw materials are available with a maximum repayment term of 1.5 years and a grace period of six months.<sup>120</sup>
3. **FINANCIAL ASSISTANCE FOR LEASING OF AGRI-FOOD EQUIPMENT:** Under this program, 10 percent of the cost for the leased fish farming equipment (equipment to be acquired for alternative use of water resources) can be compensated by the state. The total cost of equipment purchased within the framework of the program should not exceed AMD 1 billion. The program is available to beneficiaries on the following terms: zero percent rate of interest rate, 20 percent down payment, and up to eight years repayment term. There is a preferential term defined for repayment of the principal amount of the lease, which is calculated for a maximum of three months from the moment the lease is granted. In addition, at the lessee's request, financial institutions may establish break periods for repayment of the principal amount for a period of up to six months per year.<sup>121</sup>

<sup>114</sup> Law on Development and Investment Promotion of Dilijan Community and Adjacent Territories of Tavush Marz

<sup>115</sup> Law on Free Economic Zones

<sup>116</sup> Law on Free Economic Zones, Article 12, TC Article 64, part 2, paragraph 23

<sup>117</sup> Law on Industrial Policy, Article 17, part 2

<sup>118</sup> TC Article 74, Article 95, part 3 and Article 100, part 2

<sup>119</sup> GOAM Decree N 361-L, 29.03.2019

<sup>120</sup> GOAM Decree N 1168-L, 15.07.2021

<sup>121</sup> GOAM Decree N 893-L, 19.07.2018

## 3.2 ANALYSIS OF THE EFFECTIVENESS OF THE INVESTMENT INCENTIVE SYSTEM IN ARMENIA AGAINST BEST PRACTICE AND COMPARATOR COUNTRIES

### 3.2.1 ATTRACTIVENESS OF THE ARMENIAN TAX SYSTEM IN THE REGION

Armenia stood 52<sup>nd</sup> in Ease of Paying Taxes—with 81.5 out of a possible 100 points—among 189 countries, according to PwC's *Paying Taxes 2020* report.<sup>122</sup> This is lower than Georgia, Turkey, Moldova, and Azerbaijan, making Armenia's investment environment for paying taxes less attractive for potential investors than these countries of the region.

**TABLE 3.3: ARMENIA AND COUNTRIES OF THE REGION IN "PAYING TAXES" RANKINGS, 2019**

COUNTRY	OVERALL RANKING	EASE OF PAYING TAXES SCORE	TOTAL TAX AND CONTRI BUTION RATE, (PERCENT)	TIME TO COMPLY, HOURS	NUMBER OF PAYMENTS, TIMES	POST-FILING INDEX
Georgia	14	89.2	9.9	216	5	85.9
Turkey	26	86.6	42.3	170	10	100
Moldova	33	85.2	38.7	183	10	90.8
Azerbaijan	40	84	40.7	159	9	83.8
<b>Armenia</b>	<b>52</b>	<b>81.5</b>	<b>22.6</b>	<b>264</b>	<b>15</b>	<b>79.4</b>
Russia	58	80.5	46.2	159	9	77.8
Kazakhstan	64	78.2	28.4	186	10	48.9
Ukraine	65	78.1	45.2	327.5	5	86
Belarus	99	71.2	53.3	170	7	50
Kyrgyzstan	117	67.2	29	220	26	37.4

Source: PwC, "[Paying Taxes 2020](#),"<sup>123</sup> available as of May 19, 2021.

Detailed assessment of the scoring criteria clearly shows that the main issues are principally the high number of payments (15 times) and the long duration of the interconnected tax reporting (264 hours). Furthermore, Armenia ranks second to last among the countries studied with respect to these two criteria. As for the post-filing index, Armenia again lags behind its immediate neighbors Georgia, Turkey, Azerbaijan, and Moldova, but is a leader among the EAEU countries.

According to the recent PwC *Paying Taxes 2020* report,<sup>124</sup> the total tax and contribution rate in Armenia was 22.6 percent. This means the amount of taxes paid by a hypothetical company in its second year of activity was 22.6 percent of commercial profit. Compared with other countries in the region, Armenia's investment climate, in terms of tax and contribution rates, is actually more favorable than in other countries in the region, except for Georgia, where the same figure is 9.9 percent. Considering that, since January 1, 2020, the Corporate Income Tax rate in Armenia has been reduced by 2 percentage points, it can be claimed that under otherwise equal conditions,

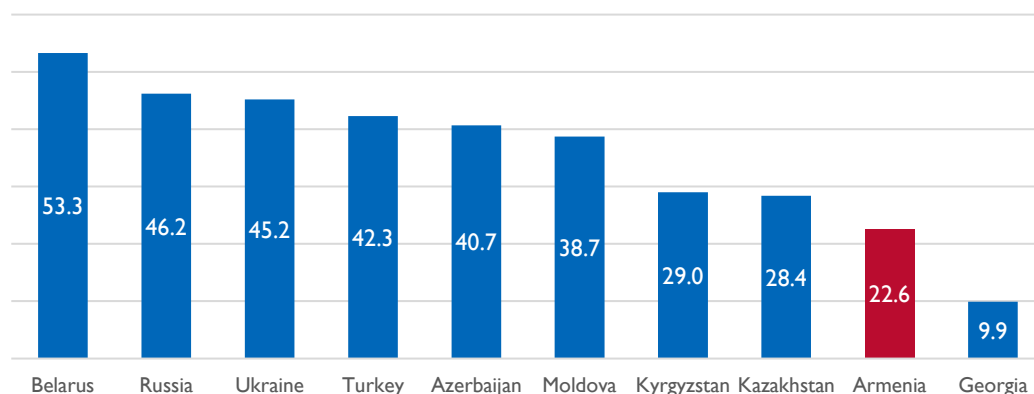
<sup>122</sup> [PwC Paying Taxes Report 2020](#)

<sup>123</sup> Ibid

<sup>124</sup> Ibid

Armenia's investment environment for taxes and contributions has become more attractive. However, *Doing Business 2020*<sup>125</sup> stated that Armenia made paying taxes easier by extending VAT cash refunds to capital investment.

**FIGURE 3.1: TOTAL TAX AND CONTRIBUTION RATE IN ARMENIA AND OTHER COUNTRIES IN THE REGION (PERCENT AGAINST COMMERCIAL PROFIT), 2019**



Source: [WB, Open Data, Total tax and contribution rate](#) (percent of profit), ID: IC.TAX.TOTL.CP.ZS, 2019.

Taking into account the context of this assessment, the comparative analysis of tax rates in Armenia and other countries of the region has been made by conditionally dividing these taxes into two groups:

1. Capital factor taxes (taxes on profit, dividend, interest, royalties, and capital gains)
2. Labor factor taxes (labor tax, social contributions)

**TABLE 3.4: TAX RATES ON PROFIT, DIVIDENDS, INTEREST, ROYALTIES, AND CAPITAL GAINS IN ARMENIA AND OTHER COUNTRIES OF THE REGION**

COUNTRY	CORPORATE INCOME TAX, (PERCENT)	DIVIDEND, INTEREST, ROYALTY TAX (N/A)	TAX ON SURPLUS VALUE OF ASSETS (CAPITAL GAINS TAX)	
			LEGAL PERSON	NATURAL PERSON
Iran	25	Resident, N/A / N/A / N/A Non-resident, 0% / 5% / 5- 7.5%	N/A	N/A
Turkey	22	Resident, N/A / N/A / N/A Non-resident, 15% / 10% / 20%	22%	10%
Russia	20	Resident, 15% / 10% / 10% Non-resident, 15% / 20% / 20%	20%	13/15
Kazakhstan	20	Resident, 5% / N/A / N/A Non-resident, 15% / 15% / 15%	10%	10%
Armenia	18	Resident, 5% / 10% / 10% Non-resident, 5% / 10% / 10%	18/ 0%	0%

<sup>125</sup> [World Bank Doing Business Report, 2020](#)

Belarus	18	Resident, N/A / N/A / N/A Non-resident, 12% / 10% / 15%	12-18%	13%
Ukraine	18	Resident, N/A / N/A / N/A Non-resident, 15% / 15% / 15%	18%	18%
Georgia	15	Resident, N/A / N/A / N/A Non-resident, 5% / 5% / 5%	15%	5%
Moldova	12	Resident, 6% / 12% / 12% Non-resident, 5% / 5% / 5%	12%	12%
Kyrgyzstan	10	Resident, N/A / N/A / 10% Non-resident, 10% / 10% / 10%	10%	10%

Source: PwC, [Tax Summaries 2020](#), official sites for observed countries, available on 19.05.2021.

As featured in Table 3.4, regarding absolute corporate income tax rate in the region, Armenia falls behind Kyrgyzstan (10 percent), Moldova (12 percent), and Georgia (15 percent), and is in fourth place with Belarus and Ukraine (18 percent). At the same time, it should be noted that tax rate for dividends for non-residents is 5 percent, which is lower than in Kyrgyzstan (10 percent), Moldova (6 percent), Belarus (12 percent), and Ukraine (15 percent).

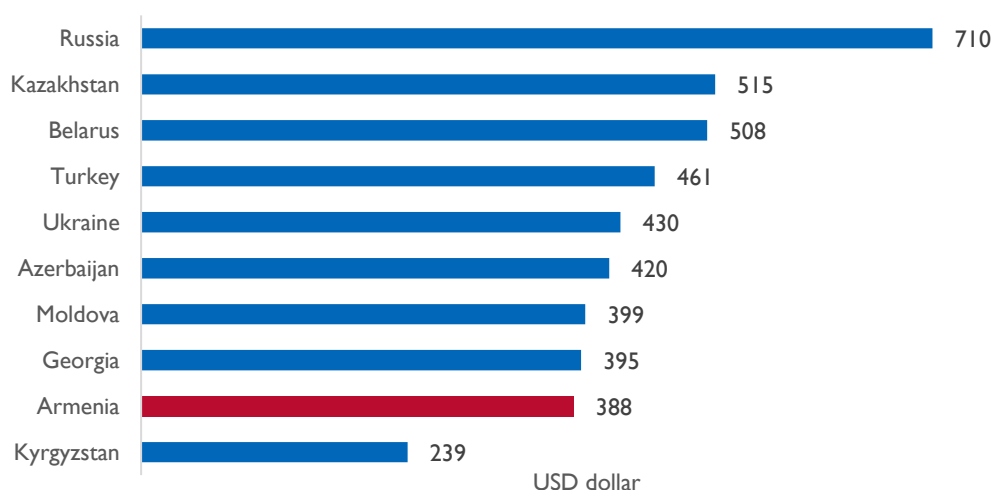
With regard to labor factor taxation, the rate of taxes/contributions in Armenia is quite attractive for potential investors—25.5 to 32 percent. Here, Armenia only falls behind Ukraine (19 percent), Kazakhstan (19.5 percent), and Georgia (22 percent).

**TABLE 3.5: LABOR TAX AND SOCIAL CONTRIBUTIONS**

	LABOR TAX	SOCIAL CONTRIBUTIONS	TOTAL
<b>Armenia</b>	<b>22%</b>	<b>3.5-10%</b>	<b>25.5-32%</b>
Russia	Resident, < ₺ 5 million - 13% > ₺ 5 million - 15% Resident 30%	30%	43-45%  60%
Georgia	20%	2%	22%
Ukraine	18%	1%	19%
Belarus	13%	35%	48%
Moldova	12%	18-32%	30-44%
Kazakhstan	10%	9.5%	19.5%
Kyrgyzstan	10%	27.25%	37.25%
Turkey	15-35%	<1%	16-35%
Iran	Resident, 0-35% Resident, 35%	30%	35-70%

Source: PwC, [Tax Summaries 2020](#), official sites for observed countries, available as of May 19, 2021.

**FIGURE 3.2: AVERAGE GROSS MONTHLY SALARY IN ARMENIA AND OTHER COUNTRIES OF THE REGION, 2020**



Source: [Eurasian Economic Union, Labor and Wage](#), as of June 24, 2021.

To get a comprehensive picture of labor force accessibility and attractiveness, **the average gross nominal wage** was also observed, in addition to the Income Tax and Social Contribution Tax rates. The average gross nominal wage in Armenia in 2020 was \$388, expressed in equivalent AMD, which is lower than in the countries studied, except for Kyrgyzstan (\$239).

In addition to comparing Income Tax and Social Contribution Tax rates, the average salary indicators show that Armenia is competitive among the studied countries, relative to labor factors, and lags behind only Kyrgyzstan.

In summary, the tax system in Armenia is quite attractive compared to the studied countries in terms of "capital" and "labor" tax rates, but is significantly behind relative to indicators regarding effectiveness of tax administration, such as the number of payments, and time to comply.

### 3.2.2 ANALYSIS OF THE CURRENT INCENTIVES AND IDENTIFIED GAPS

An analysis of Armenia's current incentives regime and comparison with nine other comparator countries—Belarus, Estonia, Georgia, Hungary, Kazakhstan, North Macedonia, Serbia, Russia, and Ukraine—is presented in annexes 3.1 and 3.2. The following are the key points regarding Armenia's incentives regime and potential gaps, when viewed in the context of the overall investment roadmap:

1. Investment incentives are rarely the principal reason for a company to invest. Few, if any, worthwhile investment projects ever make a location decision solely or mainly because of incentives. The investment climate offering must be competitive. This applies principally to fiscal incentives—if the right investment climate factors (such as labor market, infrastructure, operating costs, etc.) are not present, then profitability is reduced and fiscal incentives may become less relevant. Therefore, incentives reform should not be designed in isolation, but as part of investment reform policy, legal framework, regulatory framework, administrative processes, strength and quality of the labor market, infrastructure, level of business operating

costs and other components. Incentives cannot be a "substitute" for a good business and investment climate.<sup>126</sup>

2. Rates or privileges that apply to every business—for example, the base rate of corporate income tax—are not normally considered investment incentives. An investment incentive is offered to a number of companies, often within a range of prioritized sectors that qualify for such incentives, usually based on their potential value to the economy.
3. Most investors will not make an investment location decision primarily due to the incentives offered, but on the total value proposition a country offers that address the investor's key investment drivers—for example, labor market, operating costs, real estate, etc. Also, incentives that offset some of the costs and difficulties in realizing these drivers (for example, offsetting the costs of recruiting, training, and employing workers) can be very attractive to investors.<sup>127</sup>
4. Armenia does not have an investment strategy. The GOAM program does not clearly indicate investment policy objectives that the country wants to achieve; it does not define and implement an incentives policy, which complicates design of the incentives. Most current incentives are not linked to investment policy objectives.
5. Regular monitoring is not carried out, therefore GOAM is unable to assess the effectiveness of the incentives and whether they are meeting policy objectives. The costs and benefits of the current investment incentive regime are not assessed, which does not allow for measurement of the incentives and, therefore, policy effectiveness.
6. Armenia's base rate of corporate income tax is broadly competitive but is slightly more than the average for the nine other countries—18 percent compared to 16.1 percent.<sup>128</sup>
7. Most comparator countries offer a significant corporate income tax incentive, both inside and outside FEZs/Special Economic Zones (SEZ)s. Armenia offers such an incentive only inside FEZs.
8. Many countries offer grants/subsidies. In some cases, the grants/subsidies are substantial. Armenia only provides this in some limited areas in the agriculture sector.
9. Armenia's incentive provisions appear complex and diverse—containing a wide range of detailed, and sometimes minor, provisions—when compared with most of the others. In addition, there are no incentives, which are likely to significantly attract investor attention, other than corporate income tax and VAT exemptions in the FEZs.
10. Overall, while Armenia's incentives are broadly similar in some respects to those of the other countries, they do not possess much, if any, competitive advantage.
11. Additionally, they fail to address some important investor needs, such as incentives to offset key costs of establishing an investment project—such as offsetting CapEx and costs of employing and training workers.
12. Armenia's incentives do not focus on the critical need for investment projects to export or to provide import substitution. Globally, many IPAs do not offer incentives to investment projects that do not plan to export all or most their products or provide import substitution. Such

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<sup>126</sup> Economic and Private Sector Professional Evidence and Applied Knowledge Services (EPS PEAKS) Global Topic Guide on Foreign Direct Investment. DFID UK, 2016

<sup>127</sup> Economic and Private Sector Professional Evidence and Applied Knowledge Services (EPS PEAKS) Global Topic Guide on Foreign Direct Investment. DFID UK, 2016

<sup>128</sup> [Trading Economics 2021](#)

projects fail the test of additionality (see below under *Key Important Notes*).<sup>129</sup> If the investment project does not plan to export or provide import substitution, there is the danger of displacement of business and employment in the country's home market.<sup>130</sup> This, and other key criteria for offering incentives are discussed in the following chapter.

### 3.3 RECOMMENDATIONS

#### 3.3.1 ENSURING INCENTIVES ARE ATTRACTIVE TO INVESTORS AND SUPPORTIVE OF THE ARMENIAN ECONOMY

Incentives that are specifically tailored and used only for a single sector are rarely, if ever, used by IPAs, although the degree to which an incentive is applied may vary according to sector. First, there is usually no necessity for this—incentives that are attractive to one sector will normally also be attractive to others.

However, if GOAM attempted to do this for any given sector, it would need to have a clear knowledge of the nature of typical projects within that sector—what a typical financial structure for such projects would be like, the usual level of profitability, the nature of operating costs (that is, what are the major cost elements, such as labor, power, freight costs, etc.). Information on typical business operating costs for a given sector needs to be understood by GOAM to construct a credible value proposition to investors in that sector. Such information can only be obtained either by hiring an experienced expert in that sector and/or interacting with existing or potential investors in that sector.

Targeting incentives for particular sectors is more a matter of sector prioritization—that is, a policy decision to attract investment from specific sectors. But usually, the same incentive mechanism will apply across sectors. Sometimes a decision may be taken to offer an additional incentive for a sector (for example, zero-tax rate, as opposed to a low tax rate), but this is relatively rare.

Attractive incentives can be marketed for specific sectors, but the reality is that the incentive mechanism is usually the same as for other sectors that the IPA is targeting. For example, from the early 1980s, Ireland decided to prioritize and target ICT, electronics, financial services, business services, pharmaceuticals, and medical technologies, but, in each case, the incentive mechanism used (mainly the selective 10 percent corporation tax rate) was the same.<sup>131</sup>

Where variations in the amounts of incentives offered to specific projects differ, it is rarely based on which sector is involved, but according to their perceived value to the economy, measured by the range of factors listed below under Priority and Standard sectors. In addition, an IPA may skew incentives to favor a project that is willing to locate in an area that has been classified as a priority location by GOAM because it particularly needs additional economic development and job creation or because the GOAM in question has designated that location as the site for a cluster or hub for a particular sector.

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<sup>129</sup> Additionality refers to the principle in investment promotion where a project should provide real incremental added wealth and employment in Armenia (mostly through exporting or providing import substitution); otherwise, the investment may result in displacement of existing businesses in that sector and therefore provide no net gain for the Armenian economy

<sup>130</sup> Economic and Private Sector Professional Evidence and Applied Knowledge Services (EPS PEAKS) Global Topic Guide on Foreign Direct Investment. DFID UK, 2016

<sup>131</sup> This rate was applied to all knowledge-based manufacturing sectors (including ICT, Electronics and Medical Technology), and also to Financial Services operations, but offered only to specific companies in these sectors, selectively, by IDA Ireland



However, should Armenia wish to try to create separate incentive mechanisms for specific sectors, with the MOE and Enterprise Armenia having fully understood the usual nature of projects in that sector, the following best-practice recommendations provide categories of possible incentives, which are in turn dependent on the sector. While GOAM should offer incentives to attract investment, particularly in FDI projects, the objective of investment promotion is not to make profitable multinational companies (MNCs) even more profitable—there must be significant benefits for Armenia too.

Mostly, GOAM must attract projects that:

- Make a strong contribution to Armenia’s economic growth
- Provide significant additional employment, in terms of quantity and/or quality;
- Export all or most of their products—thus creating additional wealth and employment and improving Armenia’s balance of payments or provide real and significant import substitution
- Produce products or services that are economically complex (for example, electronics, automotive, software)
- Have a significant technology content and/or high market-growth potential
- Create or further develop a highly desirable sector or sub-sector
- Create significant added value in the processes carried out within Armenia
- Provide significant supply-chain opportunities to indigenous businesses.

There are other motivators, but these are usually the main ones.

In addition, there are key areas where most projects will find incentives most attractive. These include:

- Offsetting CapEx
- Offsetting the costs of recruiting, training, and employing workers
- Offsetting liability to taxation
- Offsetting the costs of R&D
- Acquiring additional equity.

### **3.3.2 DEFINING TYPES OF SECTORS AND PROJECTS**

The need for different types of incentives is reflected in the types of sectors and projects.

**SECTORS/PROJECTS WITH HIGH PROFITABILITY:** Fiscal incentives, particularly permanently (selectively) low corporate income-tax rates, will be most attractive for projects from highly-profitable sectors (such as soft beverages, real estate, information services, semiconductors, life insurance, health-care support and services, computer services, and gaming/entertainment software).

**SECTORS/PROJECTS THAT ARE CAPITAL-INTENSIVE:** Mechanisms (grants, subsidies, or tax credits) to offset the cost of plant and equipment are likely to be attractive to such projects.

**SECTORS/PROJECTS THAT ARE LABOR INTENSIVE:** Mechanisms such as corporate tax credits for every employee hired and/or employment grants to offset labor costs are likely to be attractive to such projects.

**SECTORS/PROJECTS THAT ARE COST CENTERS:** These are projects that do not directly earn a profit but provide support to the wider company, regionally or globally. Examples include customer support centers, shared service centers, etc. In these cases, fiscal incentives are not relevant and only direct contributions, in-cash (for example, employment grants) or in-kind (such as subsidized premises or training provision) are likely to be attractive.

**SECTORS/PROJECTS THAT HAVE AN EQUITY REQUIREMENT:** Most MNC FDI projects are self-financing. However, some smaller companies may seek equity support. This should always be a minority equity stake for GOAM and be underpinned by equity commitments by the company's shareholders and/or by reputed private sector financing sources (for example, banks, investment funds, and pension funds). Such deals will depend on GOAM's ability to fund such equity investments and should never occur without well-qualified advice from investment experts.

**SECTORS/PROJECTS THAT HAVE HI-TECH, HIGH-GROWTH POTENTIAL:** Projects for which an equity incentive/investment by GOAM is most appropriate are those (usually hi-tech, knowledge-based) that have potentially high-growth profile. By their nature, such projects are usually high risk and, for that reason, if government wishes to consider equity investments in these projects, the way is often by establishing a venture capital or development capital fund that can balance losses on some projects with major gains on others. However, such equity funding mechanisms should only be considered by government with the assistance of experts in such funds.

**SECTORS/PROJECTS THAT PRODUCE ECONOMICALLY COMPLEX PRODUCTS:** Economic complexity is an interesting suggestion by GOAM and could be useful to measure of the value of a project, as long as it is not the only criteria. A project may produce output that is economically complex, yet be of relatively limited value and fail to meet any of the criteria listed above under *Types of Projects* and below under *Priority and Standard sectors*. For example, a finished product may be economically complex, but in the case of, say, a vehicle assembly operation with all components sourced from elsewhere, it may fail all the criteria listed above. Apart for that

- It would make little contribution to economic growth as very little economic value is created locally—but mostly in the manufacturer's home base or elsewhere
- As the assembly process is limited, it may provide relatively little additional unskilled or semi-skilled employment
- It would be expected that none of the assembled products would be exported—all products would be likely to be sold in the home market
- It would be a basic assembly operation and would not create or develop a new sector
- The added value would essentially be close to zero, as all components are manufactured elsewhere
- As all components are imported, the project would offer little or no supply-chain opportunities to indigenous businesses.

Conversely, a product may not be economically complex but be of significant value to the Armenian economy. An example is with garment production, which can create significant employment, exports, significant sector development, etc.

**R&D PROJECTS:** R&D is a sector as well as a type of business/industrial activity and applies to many sectors. Even for well-established investment locations, R&D projects are exceedingly difficult to get (for numerous reasons, including that many MNCs prefer to keep R&D close to their home base for greater control and to protect IP). Success in this area may require a major contribution by GOAM, such as a significant cash input, provision of low-cost technical or laboratory facilities, arranging collaboration with local universities, etc. GOAM Program 2021-2026 has its primary focus on R&D and envisages tax incentives to promote corporate R&D.<sup>132</sup>

### 3.3.3 DIFFERENTIATING/GROUPING SECTORS BY VALUE TO ARMENIA

For the purpose of proposals on incentives, two categories are suggested: *Priority Sectors* and *Standard Sectors*, which are defined as follows:

#### PRIORITY SECTORS

These are sectors that will be recognized by Armenia's investment policy as having the greatest potential and, therefore, the highest priority in FDI promotion.

All projects in priority sectors should meet all or most of the following criteria:

- Provide significant additional employment, in terms of quantity and/or quality
- Export all or most of products, thus creating additional / incremental wealth and employment and improve Armenia's balance of payments (or provide real and significant import substitution)
- Produce products or services that are economically complex and/or knowledge-based (for example, electronics, automotive, software)
- Have a significant technology content and/or high market-growth potential
- Create or further develop a highly desirable sector or sub-sector in Armenia
- Create significant added value in the processes carried out within Armenia
- Provide significant supply-chain opportunities to Armenian businesses.

#### STANDARD SECTORS

These are sectors, although at a lower priority, provide additional or incremental wealth and employment to Armenia. They may include some existing sectors, which have further potential or sectors which may provide niche opportunities.

However, any such project should meet all or most of the following criteria:

- Make a clear contribution to Armenia's economic growth
- Provide additional employment, in terms of quantity and/or quality, and not result in business or job displacement (the concept of Additionality)

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<sup>132</sup> GOAM Program for 2021-2026: <https://www.gov.am/files/docs/4737.pdf> (Section 2 - Economy)

- Export most of their products, thus creating additional / incremental wealth and employment and improve Armenia’s balance of payments or provide real and significant import substitution
- Create measurable added value in the processes within Armenia.

### 3.3.4 PROPOSED INCENTIVES

The following specific recommendations for incentives are subject to the overall criteria listed above and focused on addressing investor needs in relation to CapEx, employing workers, training, exporting, and R&D:

**CAPEX INCENTIVE—FOR PRIORITY SECTORS:** Cash grants to be provided to cover 20 percent of capital expenses invested over the first three years in the project. Incentive amounts can be utilized over five years in equal installments (4 percent of capital expenses each year).

**CAPEX INCENTIVE—FOR STANDARD SECTORS:** Cash grants to be provided to cover 10 percent of capital expenses invested over the first three years in the project. Incentive amount can be utilized over five years in equal installments (2 percent of capital expenses each year).

**EMPLOYMENT SUPPORT INCENTIVE—FOR PRIORITY SECTORS:** Cash grants will be provided to partially cover labor expenses for 10 percent of the salary fund for the first three years of the project.

**EMPLOYMENT SUPPORT INCENTIVE—FOR STANDARD SECTORS:** Cash grants will be provided to partially cover labor expenses of 5 percent of the salary fund for the first three years of the project.

The existing incentive related to the creation of new jobs shall be eliminated.

**TRAINING SUPPORT INCENTIVE—FOR PRIORITY SECTORS:** Cash grants will be provided for up to 25 percent of the cost of training employees directly working for the company in Armenia for the first two years of the project. Significant expansion of the project requiring additional employee training may also be considered for this incentive.

The grant will be utilized over the initial two project years, that is, 50 percent of the incentive per annum.

**TRAINING SUPPORT INCENTIVE—FOR STANDARD SECTORS:** Cash grants will be provided for up to 20 percent of the cost of training employees directly working for the company in Armenia for the first two years of the project. Significant expansion of the project requiring additional employee training may also be considered for this incentive.

The grant will be utilized over the initial two project years, that is, 50 percent of the grant per annum.

**EXPORT INCENTIVE—FOR PRIORITY AND STANDARD SECTORS:** Cash grants will be provided to exporters for promoting the export of goods with high Product Complexity Index score and geographical diversification.<sup>133</sup> The amount of the grant will be calculated based on the

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<sup>133</sup> “The economic complexity of a country is connected to the complexity of the products that it exports. The Product Complexity Index ranks the diversity and sophistication of the productive knowledge required to produce a product. Products with a high Product Complexity Index value (the most complex products that only a few countries can produce) include electronics and chemicals. Products with a low Product Complexity Index value (the least complex product that nearly all countries can produce) include raw materials and simple agricultural products.” [Source: Atlas of Economic Complexity](#), Harvard University, 2021

incremental growth of exports. Table 3.6, below, presents the suggested rates, depending on the Product Complexity Index<sup>134</sup> and geographical diversification.

**TABLE 3.6: LINKAGE OF EXPORTS CASH GRANTS TO PRODUCT COMPLEXITY INDEX SCORES AND GEOGRAPHIC DIVERSIFICATION**

COMPLEXITY INDEX	INCENTIVE BASIS	EAEU	FORMER CIS COUNTRIES (EXCEPT EAEU COUNTRIES)	OTHER COUNTRIES
		I	1.3	1.6
I+	4.0%	4.0%	5.2%	6.4%
0-I	3.0%	3.0%	3.9%	4.8%
- 0.25-0	2.0%	2.0%	2.6%	3.2%
< - 0.25	0.0%	0.0%	0.0%	0.0%

**R&D PRODUCT DEVELOPMENT INCENTIVE:** This incentive will provide tax credits against Corporate Income Tax of up to 20 percent of qualifying expenditure, including equipment, salaries and wages, and consumables that are directly and necessarily required for the research or development work to be carried out, over a period of no more than five years.

The incentive is primarily intended for near-market research and product development, not for far-term or academic research. In other words, it is offered to companies that might reasonably be expected to use such research and product development work to produce a marketable product within two to three years, including design, prototyping, and market research.

The effect of the incentive may also be extended to collaboration with one of Armenia's universities, provided the company was established jointly by the project owners and the university or through a joint-activity contract for this purpose.

This incentive will be conditional, by contract that the product that has benefited from the incentive should not then be produced elsewhere, but should be produced in Armenia, using a workforce based in the state. Once the production phase of the project is reached, it may become eligible for one or more of the other incentives listed above.

#### IMPORTANT NOTES

- **LINK WITH GOAM VISION AND FDI POLICY:** Aligning incentives with GOAM's new vision and FDI policy and linking them to specific country development objectives is vital to achieve increased foreign investment and economic development.
- **MONITORING AND ASSESSMENT OF THE EFFECTIVENESS OF INCENTIVES:** A monitoring system (procedures, including digital data collection) shall be established at MOE and an incentive-this effectiveness assessment will be conducted periodically to adjust the incentives

policy against effectiveness on an annual basis. The significant strengthening of MOE human and institutional capacities is necessary to implement this function.

- **ADDITIONALITY:** In all cases, all the incentives above will be offered only to companies manufacturing a product or developing a service that is then mostly exported outside of Armenia or which can be demonstrated to provide genuine import substitution. In no circumstances will incentives be offered to companies whose main or sole activity is to sell products or services, , into the Armenian market.
- **COMBINATION OF INCENTIVES:** While it will be possible for a company to obtain more than one of these incentives (for example, CapEx incentive, training support incentive), it should not be possible for any company to obtain both of the two major incentives; that is, CapEx incentive and employment support incentive. A company's decision as to which of these two incentives will be most valuable is likely to depend on whether it is capital-intensive or labor-intensive.
- **NO RETROSPECTION:** All the incentives outlined above are intended to be offered to new (greenfield) operations arriving in Armenia, or to significant expansion of existing operations. They are not intended to be offered retrospectively to existing operations in Armenia that are not significantly expanding.
- **CLAWBACK:** For all incentives, levels of production and employment agreed with GOAM at the outset must be maintained for a control period of five years after the last tax credit has been used. Should this not be the case, GOAM will have the right to call back some or all the tax credits used by the company, thus incurring additional tax liability. However, every effort will be made by GOAM bodies first of all to work with the company to assist them to recover production and employment levels.

## CHAPTER 4. INSTITUTIONAL FRAMEWORK FOR INVESTMENT POLICY DEVELOPMENT, INVESTMENT PROMOTION, AND FACILITATION

This chapter reviews and analyzes government institutions and other organizations in terms of their involvement and powers (de facto and de jure) in investment policy development, investment promotion, and facilitation, according to the OECD definition and classification.<sup>135</sup>

The following approach is used in this chapter:

**DESK RESEARCH:** Responsibilities of the following state institutions, as defined by local and normative legal acts, were analyzed: the MOE, Enterprise Armenia, ANIF, the Prime Minister's Office, the Deputy Prime Ministers' Office, MOFA, Ministry of Healthcare, Ministry of Territorial Administration and Infrastructure, and Ministry of High-Tech Industry. In addition, primary data were collected through in-depth interviews.

**GAP ANALYSIS:** A four-point Likert scale was used to compare actual operations with those defined by legal acts. Functions related to each body were evaluated as follows: "fully implemented," "most likely implemented," "rather not implemented," "not implemented at all."

### 4.1 CURRENT SITUATION OF ARMENIA'S INSTITUTIONAL FRAMEWORK IN INVESTMENT POLICY DEVELOPMENT, INVESTMENT PROMOTION, AND FACILITATION

The functions of investment policy development, investment promotion, and facilitation in Armenia are formally carried out by a number of state and quasi-state institutions, such as the Office of the Prime Minister, the Offices of the Deputy Prime Ministers, the MOE, MOFA, Ministry of Health, Ministry of Regional Administration and Infrastructure, Ministry of High-Tech Industry, Enterprise Armenia, ANIF, diplomatic missions, regional and local governments, and the organizers of the free economic and industrial zones. The hierarchy and interconnections of these structures are presented in diagram 4.1.

The Prime Minister and the Deputy Prime Ministers have a general role in investment policy development, investment promotion, and facilitation in Armenia. They coordinate and ensure compliance with the strategic plans, coordinate the activities of ministries, and harmonize their functions. According to a decision<sup>136</sup> of the Prime Minister on August 12, 2021, Deputy Prime Ministers (Mher Grigoryan) is responsible for coordinating policy development, while Deputy Prime Minister (Hambardzum Matevosyan) is responsible for coordinating investment promotion and facilitation. The latter is also responsible for coordination of any interdepartmental issues on investment generation. Neither the Prime Minister's Office nor the Deputy Prime Ministers' Offices have professional units responsible for investment policy development, promotion, and facilitation. Instead, the MOE plays a key role as an investment policymaker and Enterprise Armenia as a national

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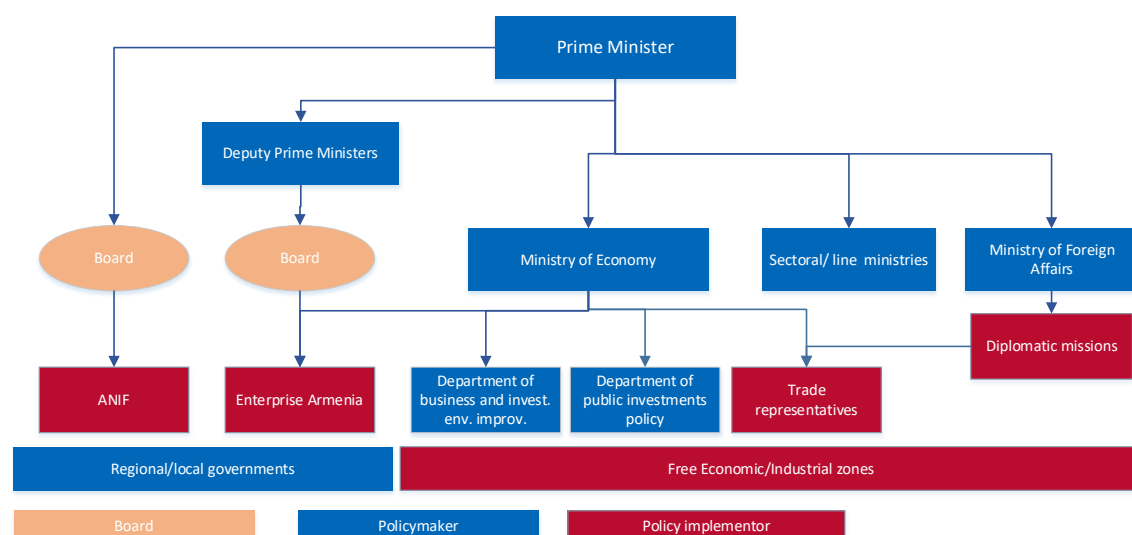
<sup>135</sup> The OECD definition of the scope of investment policy is quite extensive, for the purposes of this study we included only the investment policy development, investment promotion, and facilitation. See [pages 23-44](#)

<sup>136</sup> [The PM's decision No 849-L dated August 12, 2021](#) on "the spheres of the Government activities coordinated by the Deputy Prime Ministers of the Republic of Armenia"

IPA. In particular, according to its charter,<sup>137</sup> the MOE has the following functions related to investments and investors:

- Developing investment-generation policy and legislative frameworks.
- Developing investment and investor protection policy and monitoring implementation.
- Determining the priorities of public investment programs for economic development, monitoring their implementation, and evaluating results.
- Drafting bilateral and international agreements (for example, bilateral agreements on promotion and mutual protection of investments).
- Identifying barriers to a better business environment, submitting proposals for their elimination, and shaping a business environment favorable for the establishment and development of businesses.
- Preparing and organizing events to promote trade and economic cooperation, bilateral and multilateral cooperation, and conducting working group meetings.

**DIAGRAM 4.1. CURRENT STATE OF ARMENIA’S INSTITUTIONAL FRAMEWORK FOR INVESTMENT POLICY DEVELOPMENT, INVESTMENT PROMOTION, AND FACILITATION.**



The MOE has two departments—the Business and Investment Environment Improvement Department and the Department of Public Investment Policy—within its structure for implementation of the above-mentioned functions. In addition—appointed by the GOAM on the advice of the MOE—nine<sup>138</sup> diplomatic missions (under the general leadership of the heads of the missions) are designated trade attachés with the following functions related to investments:<sup>139</sup>

<sup>137</sup> [The PM's decision No 658-L dated June 1, 2019](#), on “the approval of the charter of the MOE and on declaring invalid the PM’s decisions No 744-L dated June 11, 2018 and No 742-L dated June 11, 2018”

<sup>138</sup> [Trade representatives of the Republic of Armenia](#)

<sup>139</sup> The decision of the [GOAM No 1935-N dated December 23, 2004](#) on “Approving the charter of the trade attachés and trade representations of the Republic of Armenia.”



- Support activities aimed at implementation of the economic policy of Armenia and represent the country's economic interests abroad.
- Provide information to state agencies, interested persons, and organizations of host countries about the economy of Armenia, the legal framework of investments, foreign trade, and domestic and foreign markets.
- Assist ambassadors when conducting negotiations on international agreements.
- Support implementation of international trade and economic agreements between host countries and Armenia.
- Support mutual official and business visits.
- Coordinate and provide support to the Chamber of Commerce and Industry of Armenia, the Armenian Development Agency,<sup>140</sup> and other state bodies in their relations with representatives and counterparts in host countries.
- Search for potential investors in Armenia among host country companies.
- Support participants from Armenia in international exhibitions, business forums, and other business events held in the host countries.
- Support in preparing and implementing trade and economic transactions between economic entities from Armenia and the host countries and facilitate implementation of these agreements.

The activities of trade representatives (trade attachés) are regulated by a charter adopted in 2004, which is now outdated and does not address modern challenges.

**Enterprise Armenia**, is the legal successor of the Small and Medium Entrepreneurship Development National Center. Earlier, investment promotion was carried out by Business Armenia, a state foundation, which functioned till 2018. Enterprise Armenia is a foundation with the GOAM as the founder. It has the following functions related to investment promotion and facilitation:<sup>141</sup>

- Developing business and investment packages to attract investments in strategic sectors, priority areas, and in line with the country's investment policy; creating an inventory of sectors and investment opportunities; and preparing informational and/or analytical reports.
- Attracting FDI through marketing, information, and support services, including by using traditional, digital and social marketing tools, business road shows, and campaigns.
- Creating connections between foreign and local businesses, promoting development of skills, technologies, innovation, and international ties.
- Building an image and organizing promotional events and campaigns, contributing to positioning Armenia as an attractive country for direct investments.

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<sup>140</sup> The former investment and export promotion agency of Armenia

<sup>141</sup> According to the charter of the Enterprise Armenia Foundation.

- Carrying out research and analytical work on foreign investments, monitoring international information and analytical resources, and preparing summaries on a regular basis.
- Providing support to foreign and local investors under the "one window" principle for the implementation of investment programs and initiatives in the Republic of Armenia.
- Supporting foreign investors at the initial screening stage; providing information and support services from the start.
- Supporting business activities of foreign investors operating in Armenia through marketing, information support, and advocacy services (after-care services).
- Promoting development of strong partnerships between public administration bodies and private sector companies to ensure the provision of effective services to investors, signing of cooperation agreements.
- Seeking membership and/or participating in sectoral councils and committees in line with the goals of the institution.
- Sharing data on business and investment environment collected when conducting its main business with relevant government departments.

Since, December 2021 Enterprise Armenia has a new board of trustees chaired by the Prime Minister, with the participation of the Deputy Prime Ministers, Minister of Economy, Minister of Finance, Minister of Regional Administration and Infrastructure, Minister of Foreign Affairs, Minister of High-Tech Industry, Chairman of the Standing Committee on Financial-Credit and Budgetary Affairs of the National Assembly, and Deputy Chairman of the Standing Committee on Economic Affairs of the National Assembly.

In addition to these two key institutions (MOE and Enterprise Armenia), the de jure and de facto functions in investment promotion performed by other line ministries (Health, High-tech Industry, Territorial Administration and Infrastructure) are very diverse, covering investment policy development, investment promotion, and facilitation functions (annex 4.1). This proves that the existing institutional framework for investments is more decentralized. At the same time, the assessment of the practices in the line ministries shows that there is not enough coordinated work in investment policy development, investment promotion, and facilitation, which may partly be because within the ministries these functions are mainly reserved for sectoral subdivisions (for example, Department of Energy, Department of Mining), except for the Ministry of Health, which has a special subdivision, the Department for Attracting Foreign Investments. Realizing the importance of coordinated relations with investors, the Prime Minister's circular letter of 2021 instructs to direct any potential investors to Enterprise Armenia, thus giving it a primary role in investment facilitation.

The MOFA is entrusted mainly with investment promotion functions, undertaking activities aimed at raising awareness in foreign countries about Armenia's investment policy, individual investment projects, and generally building a positive image of the country internationally. From 2016 to 2018, a Deputy Minister and a division were responsible for the coordination of economic diplomacy, the promotion of exports, and FDI. However, the department was dissolved and the post of Deputy Minister for economic diplomacy was eliminated in 2018. The coordination of the relevant operations of diplomatic missions was then decentralized and assigned to regional departments. Although investment promotion is still included in the list of priorities of diplomatic missions, the

assessment shows that the results are not enough. MOFA's 2019 annual report<sup>142</sup> makes only three references to investments, two of which are related to agreements on promotion and mutual protection of investments, and the other is related to investment discussions/negotiations.

The involvement of regional and local governments is limited mainly to investment promotion and facilitation functions, which are inadequate. There are no specialized subdivisions and/or responsible persons in regional administrations, and the standard functions of socio-economic development departments includes only a general formulation—to participate in the elaboration, compilation, and implementation of regional development programs. The analysis of the organizational structure and functions of five largest municipalities of the country (Yerevan, Gyumri, Vanadzor, Etchmiadzin, Abovyan) shows that, at a municipality level, the situation is similar to that of the regional administration bodies; the municipalities, with the exception of Yerevan, do not have units with investment promotion and facilitation functions. The Municipality of Yerevan has a Development and Investment Programs Department, which also has investment promotion functions. This department<sup>143</sup> is responsible for increasing the investment attractiveness of the capital city, for informing foreign partners and the Armenian business sector, and for the preparation and dissemination of information about the economy and investment opportunities in Yerevan.

According to the charter of ANIF, the main objective of this institution is to promote investment interests of Armenia through the management of strategic investment programs, attracting investments in initiatives implemented in priority sectors of the economy, and participation in business enterprises with acceptable risks. A detailed review of the charter shows that this institution, in addition to being a sovereign equity fund, is also duplicating some functions of Enterprise Armenia and the MOE, for example, by promoting the development of export capacities, conducting policy advocacy, or initiating sector development programs. Besides, the investment promotion functions of ANIF somehow coincide with the functions of Enterprise Armenia, which might lead to undesirable consequences related to multiple contacts with the same investor by different institutions.

According to the Law on Free Economic Zones, the organizers of the free economic (industrial) zones have investment promotion functions. They must implement measures aimed at the international recognition of the FEZ and its operators<sup>144</sup> (investors). However, the analysis showed that these structures are quite passive in this regard.

The involvement of various institutions in investment policy development, investment promotion, and facilitation functions in Armenia is summarized in table 4.1.

**TABLE 4.1: INVOLVEMENT OF INSTITUTIONS IN INVESTMENT POLICY DEVELOPMENT, INVESTMENT PROMOTION, AND FACILITATION IN ARMENIA**

STRUCTURE (OFFICE)	INVESTMENT FUNCTIONS		
	POLICY DEVELOPMENT	INVESTMENT PROMOTION	INVESTMENT FACILITATION
Prime Minister	☒	☒	☒
Deputy Prime Minister, Hambarzum Matevosyan	☐	☒	☒

<sup>142</sup> [Annual report of the MOFA, 2019](#)

<sup>143</sup> [Charter of the Yerevan Municipality's Development and Investment programs department](#)

<sup>144</sup> [Law of the RA on Free economic zones, article 10](#)

Deputy Prime Minister, Mher Grigoryan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
MOE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Ministry of Health	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Ministry of High-Tech Industry	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Ministry of Regional Administration and Infrastructure	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
MOFA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Regional governments	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Municipalities (Yerevan)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Enterprise Armenia	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
ANIF	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
FEZ	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

The participation of various institutions in investment policy development, investment promotion, and facilitation functions in Armenia is summarized in table 4.2.

**TABLE 4.2.: ASSESSMENT OF IMPLEMENTATION OF DE JURE FUNCTIONS BY INSTITUTIONS INVOLVED IN ARMENIAN INVESTMENT POLICY DEVELOPMENT, INVESTMENT PROMOTION, AND FACILITATION**

AGENCY, FUNCTIONAL GROUP	NUMBER OF FUNCTIONS	EVALUATION OF THE FUNCTIONS			
		"FULLY IMPLEMENTED"	"RATHER COMPLIANT"	"FULLY IMPLEMENTED"	"FULLY NON-COMPLIANT"
Office of the Deputy Prime Minister	3		3		
MOFA	2	1	1		
MOE	14		11	3	
Enterprise Armenia	11		6	5	
Ministry of Health	3			2	1
Ministry of Regional Administration and Infrastructure	4		4		
Ministry of High-Tech Industry	2			2	

The assessment, based on the Likert 4-point scale, described in detail in methodology of this chapter, shows that the actual activities of key institutions involved in investment policy development, investment promotion, and facilitation functions are largely in line with their statutory functions, but these functions are often generic, sometimes indirectly related to investment. For

example, the MOE has 14 functions, of which 11 was assessed “most likely implemented”. There is a need to clarify the role of each structure, from which the functions are derived.

Summing up the assessment of the current situation of the institutional framework of Armenia's investment policy development, investment promotion, and facilitation, the following are the main risks (obstacles):

- There is no clear division of roles, distribution/description of functions, and therefore clarity of responsibilities among the structures involved in investment policy development, investment promotion, and investment facilitation.
- Regional and local governments have low involvement in investment promotion and facilitation.
- Regional and municipal government staff do not have the capacity to communicate effectively with investors.
- Cooperation between various bodies involved in investment promotion and facilitation is weak and unregulated. For example, when an investor has a problem with a municipality, he/she approaches Enterprise Armenia, which has to involve the Office of the Deputy Prime Minister or the Ministry of Regional Administration and Infrastructure to solve the problem. If Enterprise Armenia is able to deal with the municipality directly, it would streamline the whole process, reduce the time needed to solve the problem, and the also the number of structures involved.
- The functions of Enterprise Armenia and ANIF in terms of investment promotion (generation) overlap, there are no clear criteria for the delimitation of powers, particularly when ANIF initiates joint ventures with foreign investors in Armenia (Mazdar, Air Arabia). There are no criteria for which investor groups would work with each of these organizations. . There are cases when both organizations approach the same investor, which is a duplication of competencies and can make a negative impression on potential investors.
- MOFA does not have the institutional capacity to effectively promote investments abroad. The elimination of the division coordinating economic diplomacy and the post of Deputy Minister for Economic Diplomacy, and the resulting decentralization of the relevant internal business processes within the Ministry, has led to uncontrolled and uncoordinated interaction between the Ministry and other public administration bodies.
- There is no general business process for investment coordination in the public administration system.
- Regulations and capacities of trade attachés/representations are not able to meet modern challenges and thus fail to promote Armenia's investment potential.

## **4.2 GAPS IN ARMENIA'S INSTITUTIONAL FRAMEWORK IN INVESTMENT POLICY DEVELOPMENT, INVESTMENT PROMOTION, AND FACILITATION, AND COMPARISON WITH INTERNATIONAL BEST PRACTICE**

An investment institutional framework is a complex network of public and non-public institutions and stakeholders that requires strong co-operation and coordination of skills and processes to succeed. A summary of institutional setups in selected countries is presented in annex 4.2 of this report. International best practice shows that institutional setup arrangements modalities depend

mainly on (1) leading agency for FDI policy, (2) IPA reporting line, and (3) degree of MOFA involvement in investment promotion.

**TABLE 4.3: SNAPSHOT OF MAIN INSTITUTIONAL SET-UP IN SELECTED COUNTRIES**

COUNTRIES	LEADING AGENCY FOR FDI POLICY	IPA REPORTING LINE	MOFA INVOLVEMENT IN INVESTMENT PROMOTION
Kazakhstan	Foreign Affairs	Foreign Affairs	Leading
Hungary	Foreign Affairs	Foreign Affairs	Leading
Georgia	Economic affairs	Economic affairs	Active
Estonia	Economic affairs	Economic affairs	Active
Chile	Economic affairs	Economic affairs	Active
Israel	Economic affairs	Economic affairs	Active
North Macedonia	Economic affairs	Economic affairs	Active
Kyrgyzstan	Economic affairs	Economic affairs	Passive
Serbia	Economic affairs	Economic affairs	Passive

Seemingly, the institutional setup in Armenia resembles that of Serbia and Kyrgyzstan, where MOE leads the investment policy and IPA reports to MOE. MOFA involvement in investment promotion is rather passive, which limits Armenia's possibilities for better investment attraction.

Closer examination of institutional investment frameworks of the observed countries shows a wide spread of high-level intergovernmental or independent advisory bodies. For example, in Georgia, Estonia, Israel, Kazakhstan, Kyrgyzstan, and the United States of America (annex 4.2). Moreover, Georgia, Estonia, Kazakhstan, and the U.S. have both intergovernmental and independent advisory bodies. The intergovernmental body consists mainly of high-ranking representatives of the executive branch, who regularly meet to discuss situational and systemic issues related to investment policy development, investment promotion, and facilitation. An independent advisory body, as a rule, is a platform for public-private dialogue, where representatives of the private sector, international organizations, and government agencies regularly meet to discuss issues related to improving the investment climate. There are no established intergovernmental or independent advisory agencies in Armenia, while best practice is that inter-ministerial/agency issues often arise and the need for a facilitator is crucial. Absence of these structures complicates investment facilitation and thus, attraction to Armenia.

Taking into account the shortcomings of Armenia's current institutional investment framework for the comparative analysis of functions of individual actors in investment policy development, investment promotion, and facilitation framework, it was decided to select Georgia for peer country analysis. Georgia has recorded high achievements in FDI in the last decade by adopting such an institutional model.

**TABLE 4.4: COMPARATIVE ANALYSIS OF INVESTMENT POLICY DEVELOPMENT FUNCTIONS IN ARMENIA AND GEORGIA**

FUNCTION	ARMENIA	GEORGIA
Developing of policies and measures to improve investment climate	+	+
Monitoring of policies aimed at the improvement of the investment climate	+	+
Preparation of proposals to remove barriers to improvement of investment climate	+	+
Providing feedback to business community, in particular holds discussions about drafts of legal acts, as well as reform proposals	+	+
Carrying out necessary analysis to ensure investment and investor protection, developing policy and monitoring	+	-
Analyzing investment policies of developed and developing countries, methods and approaches for attracting investments, drawing conclusions and making recommendations based on the analysis.	+	-
Analyzing the country's investment climate	-	+
Coordinating government agencies' work on efficient investment policy implementation	-	+
Assessing the effectiveness of investment policy	-	+
Developing a strategy to respond to investor questions/concerns	-	+

As shown in table 4.4, the investment policies of Armenia and Georgia generally match, with the exception of "conducting an investment climate analysis," "coordinating communication between government agencies for effective implementation of investment policy," "evaluating the effectiveness of investment policy," and "developing a strategy for responding to issues raised by investors." Some of these may be reserved for the intergovernmental body in Armenia, others for the MOE; for example, analysis of the country's investment climate and assessment of the effectiveness of investment policy.

Georgia's experience regarding the functions of the ministries of foreign affairs as active facilitators of investment promotion can be quite instructive, given that MOFA in Armenia has very few formalized functions. MOFA can formally take up functions such as "use of diplomatic tools to promote foreign investment," "represent the attractive areas for investments to foreign investors." At present, MOFA performs the above-mentioned functions to a certain extent.

**TABLE 4.5: COMPARATIVE ANALYSIS OF THE FOREIGN POLICY DEPARTMENTS' INVESTMENT FUNCTIONS IN ARMENIA AND GEORGIA**

FUNCTIONS	ARMENIA	GEORGIA
Using diplomatic tools to promote foreign investments	-	+
Presenting attractive sectors at international events/platforms, within their authority	-	+
Developing proposals for investment incentives	-	+

Organizing discussions and consultations with the partner country's state and private representatives, to introduce economic reforms taking place in the country.	+	+
Monitoring the deposition and implementation of international agreements related to investments.	+	+

In order to identify gaps in the functions of the national IPA, a comparison was made between the formal functions of Enterprise Armenia and the best practice of IPAs in OECD countries. The assessments showed that the functions generally coincide, however Enterprise Armenia needs capacity building to improve the quality of its operations. The following issues were identified as a result of this analysis:

- Weak involvement of diplomatic missions in investment promotion. To address this issue, it is necessary to adopt an institutional setup in which MOFA and the diplomatic missions are actively engaged in investment promotion.
- Lack of an interagency body for the coordination of issues and discussions in investment policy development, investment promotion, and facilitation to increase the effectiveness of responding to problems encountered by investors.

As for institutional setup, 60 percent of IPAs in OECD countries are autonomous public agencies, as Enterprise Armenia is, and usually have multiple reporting lines (56 percent). The most common ones are the line minister (59 percent of IPAs); 25 percent of IPAs report to several ministers and intergovernmental taskforces, and 16 percent to heads of governments.<sup>145</sup> Germany, Turkey, the United Kingdom (UK)<sup>146</sup> are among the OECD countries and Kyrgyzstan,<sup>147</sup> with the other Eurasian countries, are where IPAs report to the head of state (president or prime minister). Although previously Enterprise Armenia reported to MOE, the current institutional and political developments slightly changed this setup and, de facto, Enterprise Armenia reports to a Deputy Prime Minister.

The reporting line is a particularly important aspect of investment promotion, especially in countries where powers are concentrated, and institutions are weak. This is partly because the level of an agency's direct reporting authority can greatly determine its ability to influence and coordinate horizontally and vertically with other institutions. Resolving problems and removing institutional barriers to investment projects often require intergovernmental coordination, and successful countries in FDI attraction typically have mastered a whole-of-government approach (OECD PFI). Foreign investors talking to the OECD also suggest that investors are sensitive to the level of representation of IPAs, especially in countries with strongly hierarchical systems. If they perceive the IPA as being far from where "true power" lies, they tend not to consider it as a credible partner, especially for large investment projects. This is why governments need to align their institutional choices with their objectives when establishing and reforming their IPAs.<sup>148</sup>

In contrast to Enterprise Armenia, many IPAs in OECD countries have private representatives on their board. According to the OECD report, 40.5 percent of the board members of IPAs are from

<sup>145</sup> OECD (2018) Mapping of Investment Promotion Agencies in OECD Countries, pp 21-22

<sup>146</sup> Inter-American Development Bank, Christian Volpe Martincus, Monika Sztajerowska (2019), How to solve the investment promotion puzzle, a mapping of investment promotion agencies in Latin America and the Caribbean and OECD countries, p.12

<sup>147</sup> Investment-Promotion in Eurasia: A Mapping of Investment Promotion Agencies (2020) p.17

<sup>148</sup> Ibid, p.20



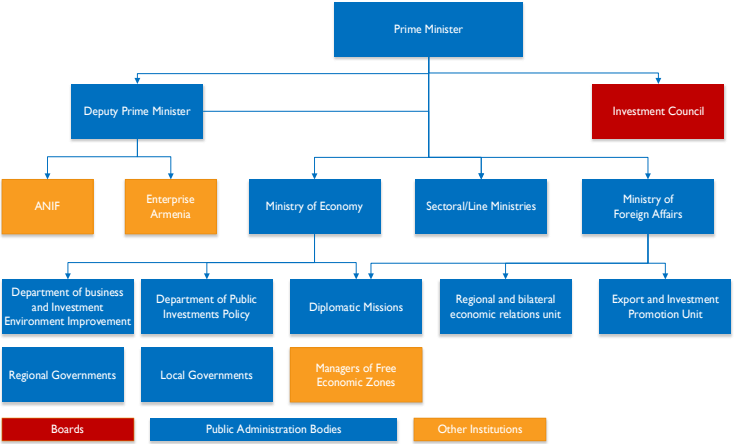
the private sector, excluding chairpersons, who are most often from the public sector. It may also include representatives from academia and civil society.<sup>149</sup>

The international best-practice review also shows that many countries have intergovernmental task forces on investment climate reforms. Particularly, there are investment councils in Georgia, Kazakhstan, Estonia, Kyrgyzstan, and Israel, while in Armenia these processes are not institutionalized.

### 4.3 RECOMMENDATIONS

Table 4.6 summarizes the gaps and recommendations for the improvement of the institutional framework for FDI.

**TABLE 4.6: SUMMARY OF GAPS AND RECOMMENDATIONS**

GAPS/CONSTRAINS/RISKS	RECOMMENDATIONS
1. There is no clear division of roles and functions, and, consequently, of responsibilities, among the structures involved in investment policy development, investment promotion, and facilitation.	<p>1.1 Clearly define by legal act the role of state and quasi-state structures in investment policy development, investment promotion, and facilitation. Transition to a centralized model and act as “Team Armenia,” where MOE will be responsible for general policy development and monitoring, Enterprise Armenia for investment promotion and facilitation, and sectoral ministries for supporting Enterprise Armenia in sectoral investment promotion.</p> <p>1.2 Coordination of Enterprise Armenia’s operations should be assigned to the office of the Deputy Prime Minister, as Enterprise Armenia is responsible for investment promotion and facilitation in other sectors as well.</p> <p>The recommended hierarchical general structure is presented below.</p>
	 <pre> graph TD     PM[Prime Minister] --&gt; DPM[Deputy Prime Minister]     PM --&gt; IC[Investment Council]     DPM --&gt; ANIF[ANIF]     DPM --&gt; EA[Enterprise Armenia]     DPM --&gt; ME[Ministry of Economy]     DPM --&gt; SLM[Sectoral/Line Ministries]     DPM --&gt; MFA[Ministry of Foreign Affairs]     ME --&gt; DBIEI[Department of business and Investment Environment Improvement]     ME --&gt; DPIP[Department of Public Investments Policy]     ME --&gt; DM[Diplomatic Missions]     ME --&gt; RBERU[Regional and bilateral economic relations unit]     MFA --&gt; EIPU[Export and Investment Promotion Unit]     RBERU --&gt; RG[Regional Governments]     RBERU --&gt; LG[Local Governments]     RBERU --&gt; MFEZ[Managers of Free Economic Zones]     EIPU --&gt; B[Boards]     EIPU --&gt; PAB[Public Administration Bodies]     EIPU --&gt; OI[Other Institutions] </pre>
2. The regional governments’ participation in investment promotion and facilitation is passive.	<p>2.1. Add investment promotion and facilitation to the job functions of departments for social and economic development at the regional administration level.</p> <p>2.2. In each region, assign one of the deputy governors a function for investment promotion and facilitation to support Enterprise Armenia’s activities in the region.</p>

<sup>149</sup> OECD (2018) Mapping of Investment Promotion Agencies in OECD Countries, p 23

3.	The local governments' participation in investment promotion and facilitation is passive.	3.1.	In each municipality, assign one of the deputies of the mayors to be responsible for investments, to be the contact for Enterprise Armenia (investor) when, and if, there are problems related to investments in that municipality.
4.	Staff of municipalities and regional administrative offices lack capacity for effective communication with investors. Cooperation between various structures responsible for investment promotion and facilitation is weak and uncoordinated.	4.1.	Organize relevant training workshops for representatives of municipalities and regional administrations. These workshops are to be conducted by Enterprise Armenia staff and other experts and will help to build informal networks between representatives of different structures.
5.	Investment promotion (attraction) functions held by Enterprise Armenia and ANIF partially overlap; there is no clear division of responsibilities between the two organizations.	5.1.	Define clear criteria for the beneficiaries of ANIF (for example, the choice of an investor should be targeted, the amount of initial investment should exceed \$10 million, and ANIF should be a co-investor). Such a practice exists in Croatia, where the Investment and Competitiveness Agency is responsible for promoting strategic investments, and HAMAG-BIRCRO handles all other investments and innovations.
6.	MOFA lacks necessary institutional capacity to conduct efficient investment promotion activities in foreign countries.	6.1.	Establish a professional division in MOFA's central office, which promotes FDI and exports and provides communication between diplomatic missions and Enterprise Armenia, as well as other government agencies.
		6.2.	Consider appointing a Deputy Minister for Economic Diplomacy in MOFA.
		6.3.	Organize training sessions in lead generation for the staff of diplomatic missions.
7.	There is no general process for investment coordination in the public administration system.	7.1.	Develop and regulate (by government decree) general business processes for investor-government partnerships (see annex 4.4).
8.	Legal norms regulating the activities of trade attachés/representations, and their capacities, do not meet modern challenges.	8.1	Develop a new concept and charter for trade attachés/representations.
		8.2	Develop this structure's capacities including training sessions, online tools, and unified websites.
9.	There are no formal structures for discussion of interdepartmental issues related to investment policy, promotion, and facilitation, which often arise.	9.1.	Based on international best practices, it is recommended to form a supervisory body/council for more efficient and better-coordinated investment attraction, with the participation of high-ranking government officials, heads of other structures involved in the investment system, and the Mayor of Yerevan.  Attribute to the council the competencies to discuss and suggest solutions for situational and systemic issues related to investment policy, incentives, and facilitation that are impossible to solve at a ministerial/agency level or if no agreement is reached on the solution.
10.	There is no private representation in the investment institutional framework of Armenia.	10.1	Formulate an advisory board under Enterprise Armenia comprising representatives of successful FDIs in Armenia, which will bring expert sectoral guidance, advice on key trends and opportunities, and business investment views of the agency strategy and operations.  Include private sector representatives in the working groups of the supervisory body/council so that private sector views are entertained and considered at the policy development stage.

## CHAPTER 5. INVESTMENT PROMOTION AND FACILITATION FRAMEWORK

This chapter addresses investment promotion and facilitation of FDI by Armenia. The country seeks to attract more FDI and benefit in terms of direct economic contribution, employment, exports, modern technologies, regional development, and thereby strengthen economic, social, and regional progress. Armenia has achieved notable success in attracting FDI in sectors such as ICT, but compares poorly with peer countries in the total number of projects, capital investment, and capital stock attracted over the past 10 years.

Following the impact of the global economic recession and COVID-19, there is now a gradual improvement in the environment for new investment. However, there is also increased competition for international investment. Some countries, including small countries comparable to Armenia in population size, have succeeded in maintaining international inward investment flows. Addressing this international competition for new investment is a major challenge for Armenia and Enterprise Armenia.

All developed countries and numerous developing and transition countries have established IPAs to attract investments. Extensive research and experience from many countries show that the role of an IPA is vital for success and that government support, including the provision of adequate financial and human resources for a competitive IPA, is essential.<sup>150</sup> IPAs are central to implementing the best-practice promotion process and creating a winning strategy for countries.

The modes of investment, new sectors, the continued shift to services such as ICT, financial services, business services (especially internationally traded services), technology changes, and evolving supply chains in a continually changing world provide new challenges but also new opportunities for investment promotion.

The recommendations in this chapter should be seen in the context of two principal issues: (a) the importance of an agency like Enterprise Armenia and the support for the strengthening and continuity of the agency as it seeks to implement best-practice promotion; and (b) the implementation of GOAM's vision and policies on FDI as a guide to action, as stated below.

The GOAM vision, support for FDI policy, continued improvements in the business and investment environment for investors, and effective investment promotion with essential resources provided, represent four fundamental components of national objectives on FDI. The subject of investment policy and the business and investment environment is addressed in chapter 2.

The following approach was used in this chapter:

- Government vision and policy: Review and assessment of GOAM statements and objectives on FDI as a guide to national investment promotion.

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<sup>150</sup>[Investment Promotion in Eurasia: A Mapping of Investment Promotion Agencies](#)

- Best practice review<sup>151</sup> and expert views: Summary review of FDI research, reports, and insights from FDI practitioners with wide experience in successful promotion practices. Key principles, actions, and proven methods that have led to success have been identified.
- Discussions and interviews with public sector, Enterprise Armenia, MOE.
- Discussions and interviews with private sector: private sector includes industry associations, chambers, companies, etc.
- Enterprise Armenia: Review of Enterprise Armenia's goals, and existing strategy, structure, and activities in investment promotion (including assessment of website and brochures).
- Analysis of organization strategy and structures: Using proven methodology to analyze effective organizations' strategy, structure, systems, skills, style, staff, and shared values.
- Analysis of strategic functions: Information, marketing and image building, outreach: direct selling and investor facilitation, investor aftercare and servicing, linkage and integration, policy advocacy and follow-up, and performance monitoring/evaluation, using SWOT analysis, benchmarking with peer countries and comparative analysis of Enterprise Armenia website and brochures.
- Selecting peer countries: Establishing criteria to select peer countries for comparison and learning experiences for Armenia. The analysis is primarily focused on smaller countries without big domestic markets and rich natural resources such as minerals, oils, and gas. Countries should ideally use the best-practice guidelines to compare with selected competitors and continually build their own best-practice promotion strategies in line with national development vision and objectives.
- Implementing comparative benchmarking with selected countries: Comparative performance on the number of FDI projects attracted and selected promotion functions.
- Conclusions on investment promotion and facilitation: Drawing on the comparative analysis with peer countries and recommending changes and actions for the IPA strategy.

## 5.1 INVESTMENT PROMOTION AND FACILITATION IN ARMENIA

### 5.1.1 THE POLICY ENVIRONMENT TO SUPPORT BEST PRACTICE PROMOTION AND FACILITATION

Investment promotion and facilitation are powerful means to attract investment and maximize its contribution to development, but their success depends on the quality and implementation of investment-related policies and on the overall investment climate,<sup>152</sup> Chapter 2 describes the wider policy, program, and institution framework to support best-practice promotion. In summary, this includes a clear government vision, policy, and objectives for FDI, a stated plan of action to improve the business environment, and an FDI promotion agency with capabilities and resources to attract new investment projects in cooperation with other ministries, state agencies, and the private sector. All investment promotion agencies that aspire to conduct best-practice promotion and facilitation

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<sup>151</sup> Successful practice in investment promotion by large and small countries has been researched and codified over many years in a wide range of studies and reports by, for example, UNCTAD, WB /IFC/ Multilateral Investment Guarantee Agency (MIGA), OECD, United Nations Industrial Development Organization (UNIDO), and many private sector consultancy groups and academia

<sup>152</sup> OECD Policy framework for investment, 2015, p.39

depend on this framework of national support as they compete for international investment. The support framework also includes essential incentives, competitive property solutions, and local support partners to reinforce the invitation to international investors to locate an investment project in a specific country.

An IPA requires a clear and comprehensive understanding of both national and international policy contexts and how these affect the country's potential to attract the desired quality and quantity of FDI, as set out by policy. The goal of an investment promotion strategy should be to specifically outline how much FDI, of what type, in what sector, and in what location (in accordance with certain quality criteria, including sustainability) should be attracted within a certain time period.<sup>153</sup>

The challenge facing Enterprise Armenia in attracting increased FDI is formidable as economies and businesses recover from the impact of COVID-19 and economic recession. Based on the successful experience of peer countries (for example, Estonia, North Macedonia, Moldova, Georgia, Israel and Ireland), Enterprise Armenia's success will be strongly influenced by the scope and quality of the above-mentioned framework of support for its promotion work. Equally important for success is how Enterprise Armenia develops its strategic approach for sectors and investors and this is discussed in the next sections.

### **5.1.2 INVESTMENT PROMOTION AGENCY—ENTERPRISE ARMENIA**

The first promotion agency in Armenia was established in 1998. Since then, there has been very little stability in the institutional arrangements for investment promotion. Successive governments have introduced new agencies with almost new management staff and promotion initiatives, sometimes starting from scratch rather than building on existing capacities. This has created unnecessary confusion among international investors and difficulties in building strong capacity and expertise in investment promotion and maintaining long-term relationships with existing and potential FDI investors.

The current Investment Support Center (brand name Enterprise Armenia) is a young agency, established in 2019. It succeeded the Armenian Development Agency and Development Foundation of Armenia (brand name Business Armenia). Enterprise Armenia is governed by a Board of Trustees chaired by the Prime Minister, Deputy Prime Ministers, Minister of Economy, Minister of Finance, Minister of Territorial Administration and Infrastructure, Minister of Foreign Affairs, Minister of High-Tech Industry, Chairman of the Standing Committee on Financial-Credit and Budgetary Affairs of the National Assembly, and Deputy Chairman of the Standing Committee on Economic Affairs of the National Assembly.

Enterprise Armenia has at least five stated mandates, shown in figure 5.1. Research by the World Association of Investment Promotion Agencies<sup>154</sup> and OECD<sup>155</sup> show that most high performing IPAs have one to five mandates. IPAs in developed countries that excel in the promotion of FDI typically have fewer than five mandates.<sup>156</sup>

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<sup>153</sup> Henry Loewendahl and Scott Bryan, WAVTEQ, Guidelines for developing an investment promotion strategy, 2019, p.7

<sup>154</sup> [World Association of Investment Promotion Agencies Survey 2018](#)

<sup>155</sup> [Investment Promotion in Eurasia: A Mapping of Investment Promotion Agencies](#)

<sup>156</sup> For example, IDA Ireland, [www.idaireland.com](http://www.idaireland.com)

**FIGURE 5.1: ENTERPRISE ARMENIA MANDATES**



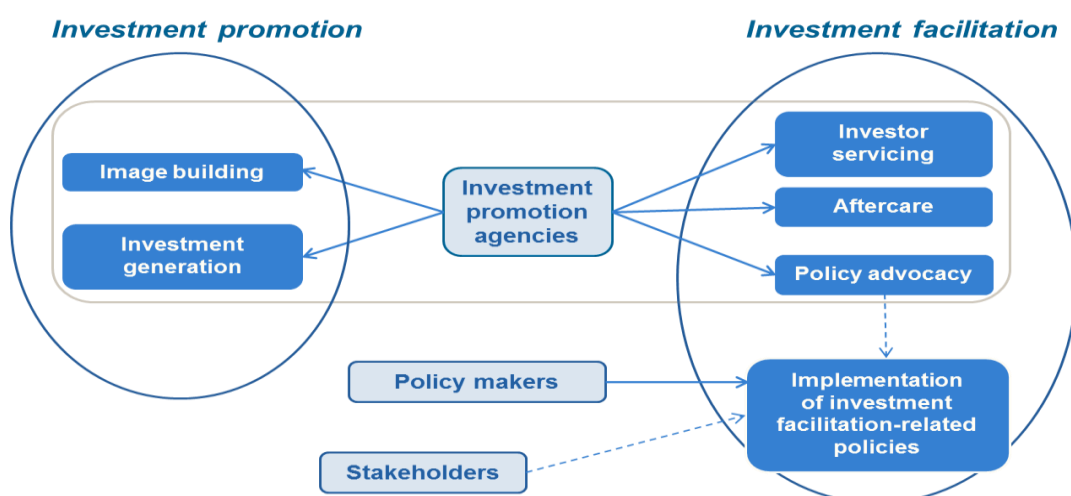
Source: Enterprise Armenia charter.

The consequences of too many mandates and inadequate resources mean the desired level of essential work required for success cannot be undertaken in many areas. This is confirmed by a study by OECD.<sup>157</sup> In some countries, this has led to the IPA losing credibility and the eventual dissolution of the IPA. Successful IPAs need time, adequate resources, and continuity to build and advance their organizations and achieve tangible results. Building a culture of effective promotion for international investment and the skills and experience required is a continuous process for all IPAs that aspire to success.

### 5.1.3 OPERATION FUNCTIONS IN INVESTMENT PROMOTION AND FACILITATION: ENTERPRISE ARMENIA AGAINST SUCCESSFUL IPA

Promoting and facilitating investment are two very different types of activities. One is about promoting a country or a region as an investment destination, while the other is about making it easy for investors to establish or expand their existing investments.<sup>158</sup> The scopes of the investment promotion and facilitation are presented in figure 5.2. As depicted in the figure, most studies indicate that image building, investment generation, investor facilitation, including policy advocacy, are the core activity components of an IPA.

**FIGURE 5.2: SCOPE OF INVESTMENT PROMOTION AND FACILITATION**



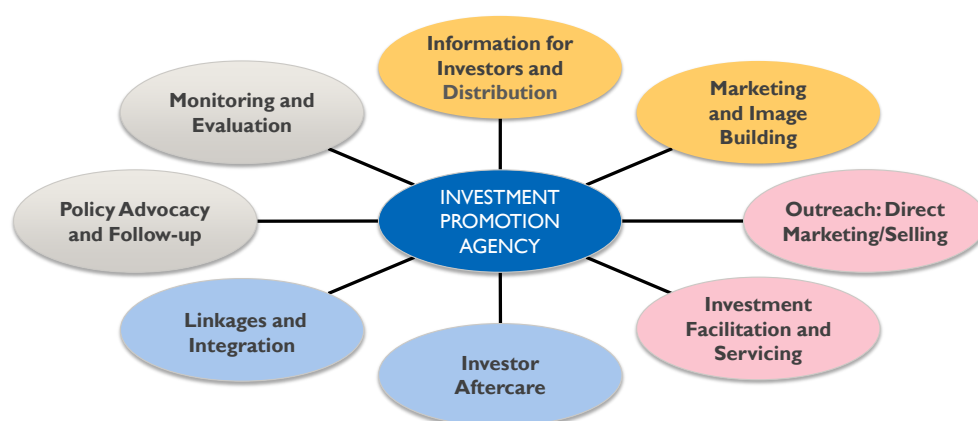
Source: OECD, *Investment insights*, Ana Novik and Alexandre de Crombrughe, *Towards and international framework for investment facilitation*, 2018, p. 4.

<sup>157</sup> [Investment Promotion in Eurasia: A Mapping of Investment Promotion Agencies](#)

<sup>158</sup> Ibid, p.39

An IPA's operational functions within the components shown in figure 5.2 are well-documented in research by OECD,<sup>159</sup> the WB,<sup>160</sup> UNCTAD,<sup>161</sup> etc. Practical experiences of world-leading investment and promotion agencies, for example, in Ireland, Costa Rica, and the Czech Republic, show that it is helpful to break down the functions shown in figure 5.2 to include more specific functions or sub-functions such as information, outreach and direct selling, linkage and integration, performance monitoring, and impact assessment, as shown in figure 5.3. All functions, as shown in figure 5.3, are equally important. The implementation of how functions are conducted may differ in various countries, but best-practice promotion demands efficient action on each function. The functions overlap to some extent, for example, quality and up-to-date information is important at all stages of the investment cycle. It is vital to have distinct and clear plans of action for each function when planning and implementing an IPA strategy. This is explained in the following paragraphs.

**FIGURE 5.3: STRATEGIC OPERATIONAL FUNCTIONS OF A SUCCESSFUL IPA**



Source: *Strategy Partners Ireland, 2021, based on practical experience with IPAs.*

Enterprise Armenia's operational functions are presented below.

FDI promotion	One-stop investor services	Domestic investment promotion and advice	Information distribution/online portal
Foreign Investor Aftercare Services	Policy Advocacy	Image building	Institutional Cooperation
Outreach campaigns	Research and analytical work	Matchmaking – FDI & Local partners	'Bridge' investors to Government

Source: *Enterprise Armenia charter.*

<sup>159</sup>OECD Policy Insights: [Investment Promotion in Eurasia: A Mapping of Investment Promotion Agencies](#)

<sup>160</sup>[Global Investment Promotion Benchmarking Report](#)

<sup>161</sup>United Nations Conference on Trade and Development: [The World Of Investment Promotion At A Glance A Survey of Investment Promotion Practices](#)

## INFORMATION FOR INVESTORS AND DISTRIBUTION

Adopting “best international practice” for providing information to potential investors is critical to attract increased FDI and generate new employment and economic and social benefits. The basic responsibility of IPAs is to provide essential facts and information to investors. High-quality and essential information is at the core of best-practice promotion. Many IPAs and websites contain information that lack important details, are out of date, not easily accessible or user-friendly, and visually unattractive.

“More than 70 percent of investment promotion intermediaries may be missing out on foreign investment by failing to provide investors with accurate and timely information.”

*Source: World Bank Group - Global Investment Promotion Benchmark Report 2009 (213 investment promotion institutions in 181 countries).*

“Information” is essential and should not be seen just as part of image and marketing. It impacts image, marketing and selling, facilitation, and aftercare. A stated strategy specifically on information (design and content, electronic and print) is desirable. The six top boxes in table 5.1 show specific brochures/videos/presentations/social media content that should ideally be prepared and publicly accessible on an IPA website and in paper copy. The lower half of the table shows supporting databases, indices, and sources of information. These are the regularly updated sources to assist in dealing with enquiries and to revise brochures, etc.

**TABLE 5.1: EXAMPLE OF AN IPA INFORMATION STRATEGY AND ITS MAIN COMPONENTS**

Key Facts on Armenia for Investors	Country Brochure/PPT and Regional Profiles	FDI Company Short List + Some FDI Investor Profiles
Target Sectoral Profiles and Country Advantages	Press Releases, Articles, Newsletters	Profiles of Local/SUPPLIER Armenian Companies
All of the above should be on the IPA website. Below is IPA source material.		
Supporting Information and Databases—Sources for Promotion Material		
SWOT Analysis—Strengths + Opportunities	Armenian Supplier Database	
Sectoral and Cluster Information	Rationale for FDI Target Sector Selection	
Comparative/Competitive Sources/Indices	Updating Systems + Procedures/Agreed Action	

*Source: IDI and SPI Guidance to IPAs, 2016.*

Promotional material should provide information and compelling “value propositions” to investors and sectors. Armenia and Enterprise Armenia should ideally review its value propositions for new investors. Current messages are too bland and general. A unique value proposition (UVP), or unique selling proposition (USP) should clearly express the competitive advantage for a potential investor’s product or service and be a distinct selling point. The UVP will comprise messages that apply to all sectors but also contain sector-specific messages. It will also vary and improve over time. For example, many businesses are preoccupied with supply chain problems. This will lead to seeking new suppliers closer to their other plants, with shorter delivery times and lower costs. Armenia’s UVP should be modified to address such opportunities.

Some investors will not wish to be in a capital city or will need to be based close to sources of local raw materials and natural resources. The role of IPAs, in collaboration with regional authorities, is to



present a region in the best possible way. To assist this role, regional value propositions are important as well and can determine the selection of a region for investment.

Testimonials and success stories form part of the information content of an IPA. Work on promotion material and website information is an ongoing process. It should: a) ensure quality national, sectoral, regional, and other information for investors and distribution to target companies; b) support marketing and selling executives by producing and updating content; and c) assist IPA staff and their network partners in preparing special presentations and offers to potential investor firms.

A comparative analysis of the Enterprise Armenia website and its brochures shows that there is significant scope for improvement. In particular, the Enterprise Armenia website and brochures lack:

- **visual images:** pictures of people, Armenia's biggest competitive advantage
- **comparative advantages:** people availability, education, and skills levels;
- **comparative data:** not just costs but costs compared to competitors
- **cost of doing business:** labor costs, various utilities, land, infrastructure, etc.
- **existing main FDI investors:** profiles of success and testimonials
- **supplier services/data** and links to other sources
- **export transport routes,** indicative routes, costs, and some links to logistics experts
- **better sector profiles and value propositions,** profiles with investor testimonials and description of sector ecosystem and advantages for new investors
- **locations:** competitive locations for investors and regional locations.

This analysis is shown in annex 5.1, which provides a guide for Enterprise Armenia to undertake continued improvement in investor information and image creation.

## MARKETING AND IMAGE BUILDING

According to OECD research,<sup>162</sup> IPAs worldwide perform image-building and investment generation activities, and these activities comprise most promotional actions. The research highlights that image-building by IPAs is part of an overall effort to put their countries “on the map” as attractive investment destinations. For example, to build their images as attractive investment locations, Eurasian countries' IPAs use similar activity mixes as their peers from other regions, albeit in different proportions. All Eurasian IPAs have a website, produce and disseminate promotion material (such as brochures, investment guides, etc.), and attend general roadshows and business fora abroad. Compared to OECD IPAs, they also use more domestic and international media advertising such as TV, print, or radio. They participate less in high-level missions abroad and host fewer incoming missions than their peers, according to the OECD research.

Table 5.2 shows the range of typical image-building and promotional activities by high-performing IPAs.

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<sup>162</sup> OECD Policy Insights: [Investment Promotion in Eurasia: A Mapping of Investment Promotion Agencies](#), and [Mapping of investment promotion agencies in OECD countries](#)

**TABLE 5.2: RANGE OF IMAGE-BUILDING AND PROMOTIONAL ACTIVITIES**

IPA ANNUAL CALENDAR OF EVENTS	ADVERTISING: INTERNATIONAL, NATIONAL, REGIONAL/LOCAL	PUBLIC RELATIONS EXPERTISE AND SUPPORT FOR IPA
PRESS DOSSIER FOR JOURNALISTS (PRINT + ELECTRONIC)	IPA NEWSLETTER, STORIES OF SUCCESSFUL FDI PROJECTS	PROMOTION MISSIONS IN HOME COUNTRY AND ABROAD
PRESS RELEASES, PRESS CONFERENCES	MAILSHOTS AND PUBLICITY PROGRAMS	SECTORAL PRESENTATIONS AND EVENTS
INTERNATIONAL PRESS VISITS AND ARTICLES	SPEECH WRITING AND INPUTS TO MINISTERIAL SPEECHES	SOCIAL MEDIA MESSAGES AND CAMPAIGNS
PROJECT ANNOUNCEMENTS AND DISTRIBUTION	PARTNER BROCHURES (PWC, EY, KPMG, DELOITTE, ETC.)	INVESTOR TESTIMONIALS AND PRESENTATIONS
PROMOTIONAL CONFERENCES AND SEMINARS	DIASPORA PARTNERS–JOINT ACTION + COMMUNICATION	LINKAGE: SUPPLIER LINKS AND DOMESTIC INVESTMENT

Working with government ministers, state agencies, embassies/consulates, industry partners, chambers of commerce, international accountants and consultants, trade fairs, foreign embassies, diaspora, sector experts and universities, and international donors in implementing an annual program of such events and activities.

While all IPAs conduct image-building/marketing activities, there are significant differences in how the image promotion is implemented. For example:

“Better online communications tools for investors, particularly their websites, is needed. The quality of remote communication tools is more important than ever.

Well-designed websites in English, easy to find via internet searches of key words related to investment, and providing quality information to the international investor community, are especially important. OECD IPAs have rapidly put information online to help foreign investors understand government measures and how they affect or apply to them.

A quick internet search in English shows that websites of Eurasian IPAs can be difficult to find; only the IPAs of Kazakhstan and Ukraine have put information on COVID-related measures on their home pages” (April 2020).

Source: “Investment Promotion Practices in Eurasia: A Mapping of Investment Promotion Agencies,” OECD 2020.<sup>163</sup>

Image-building should ensure key selling messages are developed and highlighted in all presentations and events (for example, media contacts, industry groups, publicity) and seek to continually develop competitive sector messages (for example, Armenia’s advantages).

In summary, information and image-building overlap, but both are distinct functions that need their own strategies, budgets, and action plans with specified goals and activities. At the same time, these functions are integral elements of the overall IPA investment promotion strategy.

## OUTREACH: DIRECT MARKETING AND SELLING

Successful investment promotion is fundamentally about direct contact with potential investors and establishing and cultivating relationships with them. Attracting new greenfield projects can sometimes take years and “best practice” dictates that IPAs should seek out investment decision-makers in target companies and respond to their needs during their “selling” process. This is not a

<sup>163</sup> ibid

straightforward process. It requires contact with high-level management, owner, chief executive officer (CEO), financial director, director of strategy, or regional director, namely, with management levels where investment decisions are typically made. This type of contact can be the most successful in achieving tangible results and should be the priority goal for Enterprise Armenia, embassies, and networks.

While image-building and marketing activities (see table 5.2) are important, they do not always involve direct personal contact with investors. They can result in new inquiries and new contact with some investors, but they are often more about spreading the message and selling the image of the country as a sound and welcoming investment environment. All countries and IPAs typically state that they undertake investment generation activity, but in many IPAs, this direct contact element is missing or infrequent or at the wrong level in a company.

The direct contact process is most appropriate for greenfield projects in target sectors. It demands that promotion agencies undertake good preparation, establish contact, and meet companies. It needs to ensure frequent and regular direct contact—in a planned and structured way—with existing and prospective investors. This interaction should ideally be about business opportunities for the investor, developing the investor’s business in Armenia, and the competitive benefits in Armenia. Through this kind of contact Enterprise Armenia will be better able to understand and respond to issues, obtain sectoral knowledge, and seek support or find relevant discussion partners for investors (for example, contact to other ministries, links to expert advisors, potential partner companies, etc.). IPAs will sometimes seek to engage more in general promotional work and only push state incentives and supports provided to investors. While both are relevant to investors, focused discussions on business challenges faced by investor companies and their strategy for new investment should be the priority.

Some IPAs have developed “Company Development Programs” to work with FDI companies and this often results in introducing mentors and expert advisors (legal, financial, production, technology) from the private sector, universities, or partners. This is a more advanced form of client-company support and is not appropriate for Enterprise Armenia at this stage. But it emphasizes how a “best-practice” agency should make contact and build relationships with investor companies.

In summary, IPAs should identify and target the following, for example:

- Sectors that have mobile investment projects (actual sectors where FDI projects are happening, updated every year by fDi Intelligence and World Investment Report).<sup>164</sup>
- Companies within Armenia’s target sectors but also outside these sectors that may have already invested in nearby countries or publicized expansion plans. Establish contact and make presentations that show Armenian advantages to them.
- Key senior management dealing with strategy and investment within such companies and ensuring direct contact with them to present Armenia’s competitive advantages.
- In the COVID-19 and post-Covid era, this direct contact is difficult, so many IPAs have concentrated more on contacting existing investors in their countries. Some IPAs have also developed online techniques such as “virtual site visits” that can be presented to investors. As

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<sup>164</sup> UNCTAD: [investing in Sustainable Recovery](#) and The fDi Report 2021: [Global Greenfield Investment Trends](#)

vaccination improves the prospects of direct contact, IPAs should be prepared to resume personal contact with overseas companies.

- Internationally traded services.

The growing number of projects in internationally traded services is a striking feature of changes in investment flow in recent years. Picsart,<sup>165</sup> a San Francisco and Yerevan-based tech company that develops online photo and video editing tools, is an excellent example of an internationally traded service launched by domestic entrepreneurs in Armenia. Ideally, Enterprise Armenia should publicize such projects as they contribute to the national enterprise and investment image of the country. This function of outreach is undertaken by high-performing IPAs and is crucial to their success.

### INVESTMENT FACILITATION/SERVICING OF POTENTIAL INVESTORS

This section refers to the support and services provided to potential investors considering or examining new projects and may be seeking new locations that offer competitive advantages.

High-quality prompt service to investors requires an agency that can, for example:

- Service investor enquiries with quality and timely responses.
- Provide specific information to companies. For example, possible sites, buildings, and offices for manufacturing or service companies.
- Arrange site visits (investor visits to proposed sites in Armenia) after first contact has been made. For example, after a first inquiry or meeting, the first objective should be to get investors to undertake a site visit to Armenia. Handling site visits to examine possible locations and meet suppliers, partners, banks, etc. and providing customized services are all critical.
- Meet with existing companies, who are generally familiar with the business environment of Armenia, to discuss progress of business, constraints to growth, seek information on potential projects, sister companies, supplier interest in investment, and discuss how Enterprise Armenia can assist in advancing a possible project.
- Explain local legal requirements or expedite the processing of applications and permits.
- Facilitate investor relationships with state agencies.
- Identify and introduce potential financial, construction, or supplier local partners if needed.
- Build an understanding of company needs and personal relationships with investors. For example, possible interest by sister companies in new projects and product/service areas.
- Arrange regular meetings, discuss problems and how IPAs can assist.
- Identify areas for support and take a proactive approach to supporting the investor.

Many IPAs will claim that they undertake such work, but the critical issue is the quality and consistency of how this work is done and followed up with by IPAs. “Best Practice,” according to

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<sup>165</sup> <https://picsart.com/>

Strategy Partners Ireland, require IPAs to have established written standards and staff trained in meeting these standards. For example, this would address response time on inquiries, visits to companies and site visits, as well as specified action needed and next steps by the IPA. This type of feedback should ideally be part of a CRM system in an IPA as well as clear records of direct contact and follow-up actions by the IPA to achieve a project. Information that enables IPA management to (a) maintain a “pipeline” of all enquiries, company contacts and investor/site visits; (b) review progress weekly; and (c) agree on action where necessary, is an essential component of best-practice promotion.

## INVESTOR AFTERCARE

Investor aftercare is vital for retaining existing companies and attracting new investment. It should be seen as distinct from servicing potential new companies, as outlined in previous paragraphs.

In most developed countries more than 50 percent of new FDI comes from existing companies. In some countries it extends to 70 percent.<sup>166</sup> This is a vital source of new investment and often not well understood and is underestimated by IPAs. A new investment by existing investors can cover a multitude of modes: new business functions; new factories/offices and products/services; R&D links and joint projects with universities; linkage or joint investment with domestic companies; introduction of new supplier companies; and investment interest by sister companies.

It can cover, for example:

- Expansion projects of an existing factory or office structure for service companies. This should be a prime objective for all IPAs.
- Procurement/purchasing centers, R&D, marketing and sales centers, customer support and technical services, logistics and distribution, or regional HQs. Establishing new business functions can assist in “rooting” a company in a country. It is also a confirmation of success of the existing investment.
- Introduction of group or sister companies that may be in completely different product/service areas, or it may be an outsourcing of group services (for example, group accounting, purchasing, customer contact, or technical support for select regions and products).
- Setting up of “supplier companies”. While most international companies will seek competitive local suppliers, some companies will wish to retain their existing suppliers for quality control, health standards, accreditations, or cost reasons. This is common in the pharmaceutical and automotive component sectors. IPAs should therefore seek to attract such supplier companies to their countries and work with existing investors to achieve this.

Aftercare should therefore not be just a response to problems of investors but a **systematic regular contact** (using CRM and “client account management” by staff), both to offer support and advice when necessary and to explore opportunities for new investment. It is crucial for understanding operational issues that may be hindering existing operations (for example, customs procedures, lack of skilled people in select areas, conflicts with tax authorities, and difficulties involving utilities (electricity, water, sewage, and telecommunications). IPAs cannot directly solve

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<sup>166</sup> [www.idaireland.com](http://www.idaireland.com) annual report

such issues but can play a vital role by conveying the issues to ministries or state agencies and providing practical and constructive partnerships to existing FDI companies.

Key actions to develop this function in an IPA involve:

- **regular visits:** Establish a schedule of regular visits to existing investors.
- **progress of business:** Discuss progress of business and investment opportunities.
- **policy advocacy:** Understand and report on issues affecting progress.
- **prospects:** Explore prospects for expansion investment and linkage.
- **potential new contacts for FDI:** Seek information on HQ/group or supplier contacts.

In summary, as with other strategic functions in an IPA, aftercare should be developed systematically.

## LINKAGES AND INTEGRATION

IPAs are in a unique position of advantage to stimulate linkages between FDI and local companies. Linkages refer to building contact between FDI companies and local suppliers and service providers.

By proactively engaging in this activity, IPAs can:

- Help increase local purchases by international companies;
- Help introduce efficient local suppliers with benefits for both international companies and domestic industry
- Strengthen local companies through modern technologies, supplier accreditation status, and meeting international quality standards that will facilitate entry to export markets.

“A key determinant of national advantage ... is the presence of supplier industries or related industries that are internationally competitive. The most important benefit of home-based suppliers that are internationally competitive is in the process of innovation and upgrading. Competitive advantage emerges from close working relationships between world-class suppliers and industry.”

Source: *The Competitive Advantage of Nations*, Porter M (1990).

In addition, IPAs can contribute to integrating and “rooting” international companies in Armenia, for instance, by making a new FDI project a strategic center for the parent group and increasing its competitiveness. The “rooting concept” is illustrated in figure 5.4.

**FIGURE 5.4: “ROOTING” FDI CONCEPT**



IPAs can boost international and domestic investment by (a) encouraging FDI companies to add additional functions to their business in Armenia and (b) promoting more linkages with Armenian large and SME business suppliers. Several small countries have demonstrated huge success in promoting linkages, which have integrated international companies more and enabled domestic suppliers to scale up their businesses and even enter new export markets.

Table 5.3 shows the potential opportunities for local businesses in internationally traded services. “Best practice” investment promotion includes action on linkages.

**TABLE 5.3: INTERNATIONALLY TRADED SERVICES—POTENTIAL OPPORTUNITIES FOR SUPPLIER SMES**

DOMESTIC MARKET-BASED SERVICES HAVE POTENTIAL FOR GROWTH AND INVESTMENT IN INTERNATIONAL MARKETS VIA LINKAGES AND INTRODUCTION TO FDI PARTNERS				
Software Development	Data Processing	Business Process Outsourcing	Localization and Translation	Multimedia localization, Video Editing
Technical Consultancy	Financial Services	Health care and Clinical Research	Tourism Operators and Services	Environmental Services
Market Research	Training and Education	HR/Recruitment Services	Entertainment Support Services	Facilities Management
Direct Marketing	Commercial Laboratories	Administrative H.Q. /Shared Service Centers	Corporate Services	Business Support Services
Franchising Services	Plant and Maintenance	Biotechnology Services	Media and Publishing Services	R&D Services

Linkage includes links and partnerships with the education sector—universities (for example, for R&D)—and other public and private institutions. Countries like the Czech Republic,<sup>167</sup> Ireland, and Hungary have been highly effective with such linkages, which involve building and facilitating an extensive network of cooperation with a range of partners. Enterprise Armenia should ideally lead a continuous program of linkage workshops and meetings between international and domestic companies to maximize linkage opportunities. As this work is mostly in-country, it is less restricted by COVID-19 regulations and easier to advance than meetings requiring international travel.

Broad objectives of linkages are:

- Increase purchases by international companies within Armenia (direct economic contribution)
- Meet FDI company needs, that is, assist local suppliers to improve capacities and to respond
- Strengthen domestic sectors and companies: introduce new FDI customers, quality systems, etc.
- Help to root FDI companies by linking them with strategic suppliers and service providers.

The process of undertaking linkage and key steps by IPAs is shown in table 5.4.

**TABLE 5.4: ROLE OF IPA IN PROMOTING LINKAGE**

INFORMATION AND RESEARCH	<ul style="list-style-type: none"> <li>– Assess the procurement and quality requirements of existing MNCs and opportunities for new suppliers</li> <li>– Review all data to identify realizable linkages</li> <li>– Appoint Linkage Team with definite targets and deliverables</li> </ul>
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<sup>167</sup> [CzechInvest: Sectoral Database of Suppliers](#)



SCREEN POTENTIAL SUPPLIERS	<ul style="list-style-type: none"> <li>– Success is built on good selection</li> <li>– Clarify competences of domestic companies: product, technical capability, testing, finishing, quality, and logistics, and ensure accurate Company Profiles</li> </ul>
SUPPLIER COMPANY DEVELOPMENT	<ul style="list-style-type: none"> <li>– Improve management skills, accounting, quality control, purchase management, via mentoring, training, and coaching, where necessary</li> <li>– Encourage upgrading of technology, R&amp;D, use of consultants</li> </ul>
IPA COORDINATION	<ul style="list-style-type: none"> <li>– Vital role as link between SMEs and large companies</li> <li>– Proactive role and available for advice</li> <li>– Gain sectoral knowledge and advice from MNC</li> </ul>
NETWORKING SUPPORT	<ul style="list-style-type: none"> <li>– Review all potential supports from donors, for example, on training, coaching, sectoral knowledge, and expertise</li> <li>– Consider small introductory workshops by several MNCs to explain needs and standards</li> </ul>

Source: *Strategy Partners Ireland, 2021*.

The active involvement of government ministers is a feature of highly successful linkage programs in OECD and EU countries. Government participation sends an important signal to international companies of the priority that government attaches to such linkage. In some countries, government ministers send invitations and explanatory letters to MNCs in advance and personally lead the introduction of workshops between MNCs and SMEs.

The role of an IPA in linkage development may take some time to set up. A pilot program might therefore be considered with, for example, five MNCs and up to ten potential local suppliers. This could then form the basis for a wider linkage program at a later stage.

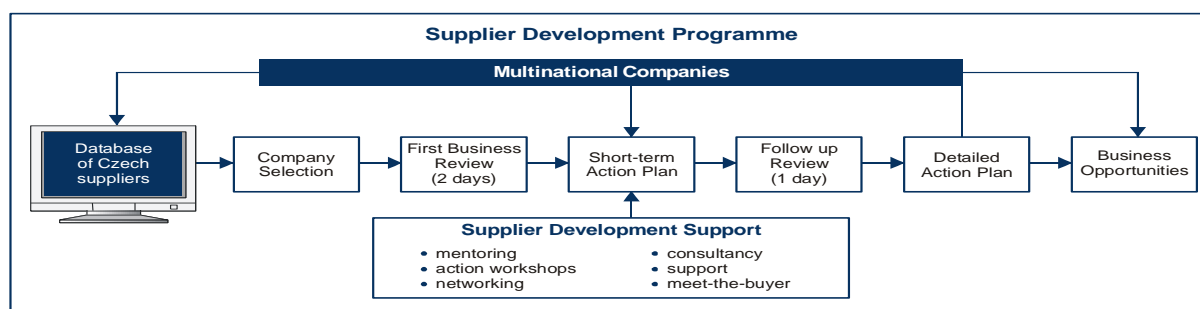
Participating companies in linkages should ideally include local suppliers that have potential to meet required standards and go on to develop export businesses. However, it can also be applied to MNCs operating in the domestic market, for example, large supermarket groups that can increase their purchase of local food and other products.

The successful experience of Czech Republic in supporting linkages and supplier development provides useful insight on working with potential local suppliers and steps to implement linkage (see figure 5.5).<sup>168</sup>

## FIGURE 5.5: SUPPLIER DEVELOPMENT PROGRAMME FOR LINKAGE IN CZECH REPUBLIC

<sup>168</sup> The World Bank: International Experience in Supplier Development





Source: WB, 2008, "International Experience in Supplier Development."

In summary, linkage is a key function of IPAs and many have successfully implemented linkage programs. Linkages can contribute significant direct economic benefits and enhance capacities of MNCs and local companies. It should be actively developed and Enterprise Armenia potentially has a key role here.

## POLICY ADVOCACY AND FOLLOW-UP

**POLICY ADVOCACY FUNCTION IN IPAs:** Policy advocacy—defined here in its simplest terms as advocating policy or program change and reform to improve the investment climate and thereby promote new business and investment—is a central function of IPAs. It is undertaken in all market economies, not just by IPAs, but also by diverse public and private sector groups, usually with special interest in the case of the latter. It is a key component of efforts aimed at enhancing the investment climate in a country. Research has shown that 80 percent of IPAs worldwide engage in policy advocacy in some form and that policy advocacy, relative to other functions, appears to have a strong association with FDI inflows.<sup>169</sup>

At the same time, the policy advocacy function has the lowest budget allocation in IPAs according to the research, although this is partly attributable to the nature of policy advocacy work, compared to the more expensive marketing and promotion activities. It does however suggest that policy advocacy should be considered more seriously and given a higher profile in the strategy and operations of IPAs. In Ireland, for example, the IPA, IDA Ireland, has historically been successful in highlighting emerging opportunities in sectors and sub-sectors in, for example, social media, ICT, biotechnology, business services, and medical devices. This has led to important anticipatory policy changes in areas like IP protection, financial services, tax treaties, and education.

Policy advocacy may range from informal advice and feedback on select issues (for example, as in the WB "Doing Business" series),<sup>170</sup> to a more structured work process that deals not just with desired policy change, but also anticipates future reform and change (for example, people—new skills needed, dedicated infrastructure, new emerging sectors, etc.). Policy advocacy here would convey needs for new policy change that will underpin investment and economic growth.

Regular contact with existing investors, as described above, will provide feedback on key issues. The IPA should ensure an internal system of recording issues, follow-up action taken, and results of this action. There should also be a feedback system to companies, for example advising on action taken, progress in addressing issues, and next steps in finding solutions to subjects raised.

<sup>169</sup> Jacques Morisset Kelly Andrews-Johnson, "The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment," 2004

<sup>170</sup> <http://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>

IPAs could advocate policy changes through their status within ministries or as state agencies with direct links to ministries and government. Through regular contact with existing and new investors, an IPA is in a unique position to identify constraints to growth and new investment. The role of staff in this area will often extend to the analyzing, benchmarking, and ranking of Armenia in international surveys, preparing key messages for promotional work, and undertaking the monitoring of results, as outlined in the previous paragraph. In effect, the Policy Advocacy unit can act as a “Planning Department” for an IPA, which undertakes key strategic analysis and presents conclusions for action at a policy level and in the agency’s operations.

**IPAs IMPLEMENTING POLICY ADVOCACY:** The implementation of policy work is heavily influenced by the size and budget of IPAs. Smaller IPAs, as in Armenia, have less resources that can be devoted to such work and may wish to focus more on information for investors, promotion, and direct contact with investors. This may lead to a more informal policy advocacy approach. However, even in this situation there are specific actions that IPAs can take, such as:

- **MEETINGS WITH EXISTING INVESTORS:** Through such meetings, IPAs can provide feedback on specific issues and obstacles to business development as cited by investors. This should mostly refer to common issues rather than the views from one company.
- **MEETINGS WITH POTENTIAL NEW INVESTORS:** Individual companies may often raise specific issues that are critical to their proposed investment project. For example, the laws relating to IP protection or the availability of infrastructure (for example, access to high quantities of water that may apply to pharmaceutical companies or high levels of electric power that applies to data centers). Addressing such issues involves various arms of government and ministries, and the IPA can document such issues for consultation and action. Ideally, it will have an agreed procedure for recording, reporting, and follow-up.
- **SURVEYS OF THE PRIVATE SECTOR:** These may be conducted by an IPA (for example, an annual survey of FDI companies to elicit information on employment, private sector surveys, or case experiences of which they are aware). Such surveys and insights provide useful feedback for IPAs. They may highlight obstacles and restrictions to business development that should be reported and presented for consultation at governmental level.
- **PARTICIPATION IN POLICY TASK FORCES:** In some countries, it is common for IPAs to participate in policy committees or task forces and provide views on issues that may impact progress in attracting investment. For example, IDA Ireland is a key member of policy review on industry and technology skills.<sup>171</sup>
- **SPECIFIC POLICY AND LEGAL PROPOSALS:** In some instances, an IPA can play an important policy advocacy role by (a) conveying views and feedback received from existing client companies or potential investors, and (b) internal IPA views and submissions to policymakers.
- **INTERNATIONAL COMPARATIVE INDICES:** Numerous comparative indices rank countries and are a source of information for international investors. IPAs may have a role here in conveying views on specific obstructions or constraints to investors.

In summary, IPAs should seek to develop their role in policy advocacy subject to their staff numbers and resources. International experience and research have shown that IPAs have a powerful role in

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<sup>171</sup> <http://www.skillsireland.ie/>

positively influencing the investment environment and supporting more investment through this work.

## MONITORING AND EVALUATION

Monitoring and evaluating IPAs has two objectives: to measure the outcomes of an IPA's activities, assess its impact on the economy and whether the underlying policy objectives for investment promotion are met, and the outputs of an IPA, that is, assess the efficiency of an IPA in conducting its activities.

Enterprise Armenia does not have a dedicated monitoring and evaluation unit or officer, but provides non-formal progress reports to the Board on the ongoing situation. The charter just prescribes that the organization is obliged to present an annual report on its activities but further formulation on indicators or methodology or other aspects is lacking. The reporting is implemented based on a few indicators such as initial contact made, project interest expressed, project under discussion, lost projects. A CRM system is not yet introduced and the other forms of evaluation are not used to assess the effectiveness of its interventions.

This monitoring and evaluation system is addressed in a comprehensive manner in chapter 2. This section highlights the important findings from the best-practice review from the IPA's internal organization perspective, in particular:

- Two-thirds of OECD IPAs (63 percent) also have a dedicated internal evaluation unit. 58 percent of evaluation units report directly to the IPAs' heads or to boards, another 37 percent more broadly report to the IPAs' management, and 5 percent to the ministerial departments that the IPAs are part of (figure 5.6).

**FIGURE 5.6: OECD IPAS' EVALUATION REPORTING**



Source: OECD (2018) *Mapping of Investment Promotion Agencies in OECD Countries*, p.39.

- Monitoring and evaluation units are often small and need to find creative ways to undertake meaningful and cost-effective monitoring and evaluation.
- CRM systems are widely used to monitor and evaluate performance as they track interactions with investors and may ensure end-to-end monitoring with each client, but IPAs hardly ever use that tool to monitor analytical work, consultations and meetings for policy advocacy purposes, and media campaigns (figure 5.7).

**FIGURE 5.7: CRM-TRACKING OF IPAS' ACTIVITIES**

Percentage of IPAs having CRM system and performing activities



Source: OECD (2018) *Mapping of Investment Promotion Agencies in OECD Countries*, p.41.

- An established feedback process helps institutionalize information on performance by informing the management and taking appropriate actions.
- IPAs also use different approaches to assess effectiveness of their interventions, the least common of which are impact evaluations in the form of econometric analyses. Most IPAs resort to client satisfaction surveys, consultations with relevant stakeholders, benchmark exercises, and case studies of companies to gauge their performance.<sup>172</sup>

<sup>172</sup> OECD Investment insights (2019), *Monitoring and Evaluation: Brief guide for investment promotion agencies*, p.7

- Selection of the Key Performance Indicators (KPI) should be aligned with the agency’s own strategy, the design of its CRM tool, and, more generally, its monitoring and evaluation system.

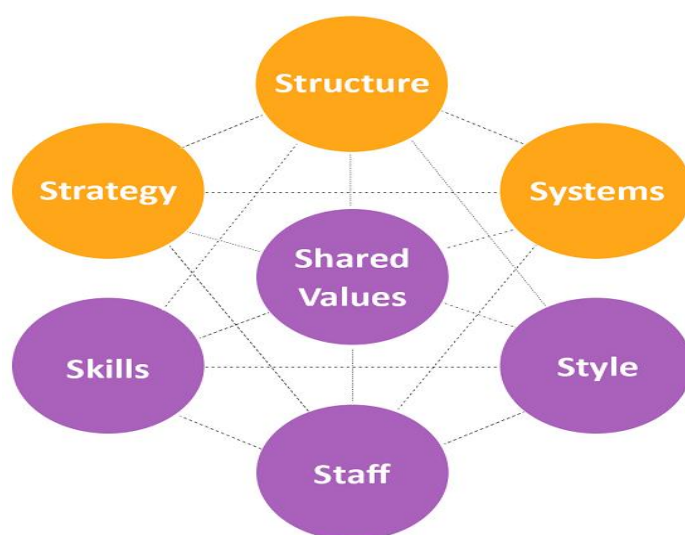
#### 5.1.4 IPA ORGANIZATION: BUILDING AN EFFECTIVE “BEST PRACTICE” ORGANIZATION

Organization theory outlines various frameworks of what constitutes effective organization structures. The McKinsey 7S model<sup>173</sup> provides one such framework and proposes seven key elements for constructing and evaluating organization frameworks (see figure 5.8). Effectiveness can be achieved in an organization through the interactions of seven key elements: Structure, Strategy, Skill, System, Shared Values, Style, and Staff.

This model looks at the “hard” rational elements of strategy, structure, and systems, as well as the “soft” human elements of skills, staff, and style. Most agencies that prove successful in attracting FDI or developing domestic enterprises have developed organizations that emulate these elements in their strategic approach and activities.<sup>174</sup> This framework should be seen as a checklist for organization development, corporate planning, and achievement of targets.

All components are important in enabling an effective organizational structure and can be seen in the organization frameworks of successful investment promotion agencies. They provide a valuable guideline for Enterprise Armenia as its role evolves. In effective organizations, all components need to exist and be coordinated and aligned.

**FIGURE 5.8: EFFECTIVE IPA ORGANIZATION—BEST PRACTICE STRATEGY**



Source: [McKinsey Quarterly: Enduring Ideas: The 7-S Framework](#).

#### STRATEGY

Strategy refers to the plan to establish, maintain, and build competitive advantage over competitor countries. The strategy sets out the focus of action on competing, types of investment projects, sectors, and key practices as described in this overall Investment Roadmap document.

<sup>173</sup>: [McKinsey Quarterly: Enduring Ideas: The 7-S Framework](#)

<sup>174</sup> Strategy Partners work with investment promotion agencies (non-public reports)

Enterprise Armenia sets out its strategy and plan in three separate documents:<sup>175</sup>

1. “Enterprise Armenia Investment Promotion Plan 2021-2022”
2. “Marketing Communications Strategy 2020-2021 Investment Support Center Foundation”
3. “Corporate Guide”

An analysis of these documents shows a confusing picture. For example:

- Why the “Marketing Communications Strategy” is a separate from the organization’s “Investment Promotion Plan?” Why not have one concise and coherent organizational plan?
- No common brand or logo is used, there is no date on the plan, and there are different organization names.
- Repeated reference and promotion of the term “Investment Support Center”
- Documents, as presented, could be from three separate organizations. IPA should establish a clear name and brand for their organization and ensure its wide acceptance and use.
- There are multiple mission statements and poor marketing messages on investor advantages.
- There is mostly descriptive material with no specific goals, actions, timelines, and responsibilities.
- The “Investment Promotion Plan” and “Marketing Communications Strategy” read more like basic descriptive reports than a coherent and useful action plan.
- Out of date references (for example, forecasts for 2020).
- It appears there is no coordination in the preparation of documents.
- Priority target groups (sectors) are not consistent with website guides.
- The Investment Promotion Plan states “An action plan and budget have been developed based on this plan.” Does it exist? Why it is not attached to the plan?

Specific Vision, Mission, Objectives, and Goals of Policy and Promotion are a core part of a best-practice promotion strategy. Clarity of the IPA vision and other elements are essential for successful implementation and assessing performance. Armenia’s statements on strategy are high-level and general. Ideally, the high-level statements in national policy and investment policy should be elaborated in more detail in IPA corporate plans with concrete goals expressed (see chapter 2). This is important for an IPA to manage its operations, to project its image domestically and internationally, and show a professional approach to investment promotion activity.

The mission and description of services provided by the agency in its “Corporate Guide” brochure is useful and an excellent introduction to the Enterprise Armenia Team. However, it is not a corporate strategy that outlines its vision and specifies its goals. Enterprise Armenia’s mission, as stated in the “Corporate Guide,” is shown in box 5.1.

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<sup>175</sup> <https://enterprisearmenia.am/en>

### BOX 5.1: CORPORATE GUIDE

“As the national investment promotion authority of Armenia, we assist foreign and domestic investors during the entire investment life-cycle. Our mission is the drastic improvement of investors’ satisfaction while doing business in Armenia. We are also there to assist in export activities and promoting Armenian products internationally. We would like Enterprise Armenia to be seen as a bridge between Investors and the Government of Armenia.

#### OUR MISSION

- Improvement of Armenia’s image and competitiveness as an attractive investment destination.
- Promotion and facilitation of foreign and domestic investments, attraction of new FDIs.
- Being the focal point and key partner for investors.
- Drastic improvement of investor’s satisfaction.
- Contribution to the economic development and diversification of economic growth drivers.
- Expansion of “Made in Armenia” brand in foreign markets.”

Source: Enterprise Armenia’s “Corporate Guide.”

The Corporate Guide sets out Enterprise Armenia services, investor servicing roadmap, aftercare, investment promotion and aftercare teams, Enterprise Armenia capacity abroad, and board of trustees.

Building on the “Investment Promotion Plan,” “Marketing Communications Strategy,” and “Corporate Guide,” Enterprise Armenia should ideally elaborate its corporate strategy and publish a condensed version of this on its website.

### STRUCTURE

The “structure” refers to the clarity needed on the way the organization functions, for example, roles and responsibilities and how groups align themselves and communicate. The structure needs to be shaped symbiotically by strategy and the other elements.

In the context of practical implementation of investment promotion operations, it is recommended that Enterprise Armenia make some adjustments. The following issues should be addressed:

The present structure has three departments dealing with FDI: Marketing and Public Relationships Department, Investment Promotion and Foreign Relations Department, and Investment Support and Aftercare Services Department. The titles of these departments are somewhat misleading. “Public Relations” is part of marketing and promotion and should be deleted. Similarly, “Foreign Relations” in English is typically associated with the Ministry of Foreign Affairs and this might be confusing to investors.

There is an important distinction between “marketing”, which involves general awareness creation and mostly indirect contact with potential investors and “promotion/selling,” which in turn involves more direct contact over projects. Direct contact is vital for success. To concentrate attention of staff on direct contact with existing and new investors, Enterprise Armenia might consider that the department be named “Investment Department.” This is the lead department in making direct contact with investors. The proposed new “Planning and Assessment” Department will take on the full range of policy advocacy, monitoring and evaluation of performance, and strategic planning for the agency. These recommended changes are depicted in table 5.5.

### TABLE 5.5: ENTERPRISE ARMENIA DEPARTMENTS DEALING WITH FDI: KEY ROLES



MARKETING DEPARTMENT	INVESTMENT DEPARTMENT	AFTERCARE DEPARTMENT	PLANNING AND ASSESSMENT DEPT.
Information, Image, and Unique Selling Proposition	Direct Contact/Selling, Facilitation (new investors)	Aftercare Services, Linkage, and Integration	Policy Advocacy, Plans, Research, Monitoring and Evaluation

Increased staff numbers in Enterprise Armenia, as recommended, will require a new organization structure. The scale of promotion work needed to transform FDI levels should not be underestimated. With 40 staff focused on FDI, Armenia will simply match the average number of staff in IPAs in the Eurasia region. However, this increase will enable much better promotion.

Enterprise Armenia does not have a network of international offices. The support of Armenian embassies and consulates is therefore necessary and vital for success in FDI and export promotion. Enterprise Armenia should, subject to agreement between relevant ministries, seek to use the network of embassies and consulates to distribute information, provide information on possible investors in their host country, and provide support at trade fairs/media events/workshops/high-level meetings/press contacts. This can create more awareness and interest in Armenia. Embassies should be regularly briefed by Enterprise Armenia, supplied with quality promotional material in print and electronic form, and receive expert advice and training to do this work.

A “Team Armenia” approach is essential here; where, for example, embassies/consulates ensure that all promotional material (brochures, press releases, new project announcements, etc.) are available and distributed in other countries. Enterprise Armenia should provide guidance and training for the Armenian diplomatic network. This should ideally be a continuous activity with agreed procedures on dealing with inquiries from potential investors. A key task for all IPAs is to develop a “pipeline” of prospective investors and projects. Enterprise Armenia management should review this on a weekly/monthly basis. Embassies and consulates can play a vital role in identifying such prospects and updating the status of interest of companies. The primary objective of FDI for embassies and consulates (with specific people assigned clear roles within embassies) should be to:

- **IDENTIFY INVESTMENT PROSPECTS:** Identify possible investment prospects (via press reports/interviews, contacts by companies or consultants, meetings at industry or sector conferences, etc.).
- **ENCOURAGE SITE VISITS TO ARMENIA:** Seek an exploratory visit to Armenia by such individuals/groups. The task of Enterprise Armenia would then be to conduct a high-quality program in Armenia for such visiting companies and to “convert” the prospect into a project. Sometimes multiple visits may occur. Obviously, close communication and cooperation with Enterprise Armenia is essential to this overall process.
- **BENEFIT FOR ENTERPRISE ARMENIA:** If each embassy identifies one prospective project per year, it would be a huge benefit to Enterprise Armenia’s work. Similarly, in export promotion, diplomats can support Armenian companies. Typically, FDI companies in Armenia do not need support in exporting but Armenian companies and especially small and medium enterprises (SMEs) do need support by way of information about markets, trade fairs, contacts to market partners, and potential buyers.

**TABLE 5.6: WORK MODULES WHERE ECONOMIC DIPLOMACY SUPPORTS FDI PROMOTION**



Quality Information	Servicing Enquiries	Links to press and media
Promotional Events	Existing Investors	Contact New Investors
CONTINUOUS COMMUNICATION AND LIAISON WITH ENTERPRISE ARMENIA		

Ideally, embassies and consulates will have agreed-upon responsibilities with the Ministry of Foreign Affairs and MOE and will have a clear and agreed-upon plan of action developed with Enterprise Armenia.

Pro-bono and diaspora networks: These networks, like diplomatic networks, have a vital role in promoting awareness and interest in investment in Armenia. As with embassies, an agreed program of work is desirable with the initial objective being to identify investment interest and obtain an exploratory visit to Armenia. Close communication and cooperation with the Office of the High Commissioner for Diaspora Affairs is desirable. The process of awareness, contact, interest expressed, site visit, project elaborated, project agreed and established should be understood and followed. It is essential that these networks work very closely with Enterprise Armenia and act as part of its overall Enterprise Armenia promotion structure to ensure effective services and support to investors.

## SYSTEMS

As with all effective organizations, Enterprise Armenia needs to ensure good management systems that address, for example, financial control, personnel management, a standard procedures manual, and systems to track progress of work and results. Some IPAs apply International Organization for Standardization (ISO) 9001 certifications to ensure quality management of the IPA. ISO 9001 requires a strong customer focus and continual process improvement and motivation from top management, thus ensuring consistently good service. Enterprise Armenia does not have ISO certification. Each department maintains its own processes and procedures. The Investment Promotion and Foreign Relations Department uses a Microsoft Excel® sheet to track investors, with managers making weekly updates to track activities. The plan to develop a CRM system supported by EBRD will enhance the existing system and be in line with best-practice systems. Enterprise Armenia management will need to ensure its full use by staff and its efficient updating. Progress here should be monitored by agency management. It will enable all departments to have better oversight of progress and action needed.

In terms of best practice in investment promotion, important systems for IPAs comprise:

- Calendar of events and promotions: A schedule of all planned events and promotion initiatives and agreed procedures to report on planning, implementation, and assessing results.
- Incoming inquiries: The handling of inquiries is a vital action for IPAs. Inquiries may come directly to Enterprise Armenia or via embassies, existing investors, consultants, and a multitude of other sources. Best practice typically demands agreed categories of inquiry and priority ranking, immediate acknowledgements to enquirers, responses within specified times (for example, two days), clear advice on further information to be provided where and when necessary, and continued contact and communication where appropriate.<sup>176</sup>

<sup>176</sup> [TPSA: Guidelines for Handling Investor Enquiries](#); [The World Bank: Increasing the Development Impact of Investment Promotion Agencies](#); [The World Bank Group: Strengthening Service Delivery of Investment Promotion Agencies](#)

- Pipeline of potential projects: One of the most critical systems for all IPAs is a shared record of all company contacts and potential projects ranked on investment potential such as: (a) preliminary contact; (b) preliminary interest shown and questions being managed; (c) interest that needs encouragement; (d) more interest shown; (e) possible project defined; (f) investor visit awaited; (g) investor visit to Armenia undertaken; (h) potential location/site identified; and (j) project start up implemented. It is not clear that there is an organization-wide management tool like this that is shared by management and staff in Enterprise Armenia. Discussions with Enterprise Armenia suggested individual departments maintain their own systems.
- Investor visits: “Site visits” or “investor visits” refer to visits to Armenia by potential investors. These can vary from general interest with no specific project to visits where investors have definite projects and may be considering several countries and locations. All such visits should be managed efficiently by Enterprise Armenia and careful records of progress (or lack of progress) maintained for future action and follow up. A primary task for embassies and networks especially should be to seek investor visits.
- Information management systems: More structured record-keeping and standard procedures, facilitated by the proposed CRM, will improve both tracking and assessment of Enterprise Armenia activity.
- Monitoring activity and impact assessment: This subject is addressed in section 9. In summary, an essential part of best practice is regular monitoring of organization and activity and annual assessments of the impact of FDI projects in terms of economic contribution, capital investment, employment, exports, regional locations, and other specified objectives.

## STAFF

- A key issue for many agencies is the number of staff employed and the scope of the organization’s mandate. Many IPAs have insufficient staff to fulfill their mandates. At a minimum, they should seek to ensure high-quality information and actions to build the image of the country as an investment location as well as their own status in providing good support to investors.
- Enterprise Armenia is a young organization with young highly motivated and multilingual staff. The IPA employees and their general capabilities are crucial factors in determining success in promotion. Investment decisions are normally made at various senior management levels (owner, CEO, vice president, regional director, etc.) and most staff should have the ability to contact, brief, and form effective relationships with clients and their teams. Training is important here.
- Best practice and most successful agencies usually seek to employ a mix of graduates with marketing and sales experience, specific sector knowledge, private sector work experience, and good interpersonal skills. This is a guide to recruitment practice in an investment promotion agency. Having this mix of staff in an IPA will strengthen relationships with investors.
- Establishing KPIs for staff should be carefully discussed and agreed on. For example, contacting ten companies per month, repeat visits/meetings, and potential project/s discussed, the outline of the possible business plan, potential investor visit, one investor/site visit achieved, etc.
- As Enterprise Armenia seeks to develop, its practices it will need to: (a) increase staff numbers (as indicated in this report, build to forty staff devoted to investment promotion) and seek the above-discussed background and experience in its staff; and (b) ensure good training and coaching of all staff. Steps to implement this are outlined below.

## SKILLS - ACTUAL SKILLS AND COMPETENCIES OF ENTERPRISE ARMENIA EMPLOYEES

Best practice agencies typically have well-structured training programs for existing and new staff.<sup>177</sup> Training needs assessment (TNA) is the first stage of a training process. It determines and describes the training needed to address gaps identified. The TNA scrutinizes every aspect of the operations of an effective promotion agency so that the competencies of the agency as a whole and of each employee can be effectively identified and an appropriate training plan prepared. TNA should start with a self-assessment by Enterprise Armenia staff of their capabilities and skills to attract FDI and promote exports, compared to the “best practices” of successful agencies around the world. These “best practices” will provide a benchmark on which to build capacities over time. Training and education need to evolve and change as organizations evolve.

Ideally this “self-assessment methodology” needs to be repeated on a regular basis to ensure ongoing and focused training to strengthen and support Enterprise Armenia in achieving its objectives and targets. This exercise identifies the knowledge, work, and personal skills that Enterprise Armenia employees will need for successful implementation of new strategies and corporate planning. It provides a guide and a basis for annual training programs. It will determine how training activities and valuable learning experiences from “best practices” could reduce gaps. These gaps can be identified at the level of the institution, department, and expressed in terms of individual performance or in terms of skills and knowledge required. Once training objectives are approved, a capacity-building plan should be developed, possibly with external expertise.

## STYLE (THE STYLE OF LEADERSHIP ADOPTED)

As with all organizations there is no single model of “best practice” leadership that can be easily stipulated. However, successful IPAs have typically demonstrated effective leadership by excellence in their approach and conduct of, for example, the activities discussed below, which can provide a checklist for successful leadership.

At an international and domestic level, public awareness of an IPA and its work is important for its success. This applies not just to activities but also to its name, logo, quality of its websites, brochures, press releases, presentations, etc. Setting a standard of practice and implementation here that filters to all IPA staff is an inspirational leadership role. This relates to, for example, clear and consistent quality standards on presentations, on conducting meetings with investors, and on follow-up actions.

An IPA should ideally be the national center of expertise on FDI and its benefits for national economic and social progress, and to explain the value of enhanced FDI and international trends and opportunities. Explaining the benefits of FDI and the needs of investors is a continuous task for IPAs, both nationally and regionally, and an IPA should see this as a core part of its work.

Regular and quality communication is vital for the image of the organization and also in reporting on its progress. For example, new project announcements, press and media conferences, newsletters, and linkages between FDI companies and local partners, universities, and research institutions.

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<sup>177</sup> SPI work and experience in IPAs in, for example, Ireland, Netherlands, Serbia, Croatia, Bulgaria, Romania, Bosnia and Herzegovina, Albania, N. Macedonia, Kosovo, Moldova, Costa Rica, Jamaica, Uganda, and Zambia

Special and sustained relationship with existing and new investors are crucial for the success of an IPA and its objectives. Ideally, an IPA is seen as a partner by investors. Equally important is the relationship with its parent ministry, other ministries, and state agencies.

Creating a culture of proactiveness of initiative-taking response to investors, to exploring new opportunities and new sectors, to links with existing and new partners, and in working with all of the above collaborators, are features of the most successful IPAs.

Satisfactory cooperation levels between departments and staff within each department on most occasions and constructive teamwork with key partners (for example, ministries, embassies, free zones, and regional administrations) when necessary to meet common goals is essential.

IPAs need to maintain confidentiality of investor's plans and activities. Best practice IPAs are effective in transparency about their activities and plans. This can be by placing annual reports online for public access and in regular communication with media. Announcements of projects should ideally be agreed-upon with investors and involve the minister and other MOE officials.

The most successful IPAs have leadership cultures that demonstrate strong commitment to building staff skills and experience. This requires continued on-the-job training/mentoring and coaching. Investment promotion is a "relationship" activity and IPAs that instill skills to staff to work with investors and partners will improve the IPA's competitiveness.

Successful investment promotion, especially for smaller countries, demands a national collaborative approach and support to an IPA as it seeks to promote and generate new investment. This issue is highlighted in various research studies.<sup>178</sup> Most IPAs will need over 20 close collaborations and partnerships with public and private institutions and with companies. Issues that impact investors can involve, for example, Ministry of Foreign Affairs (embassies and consulates), Ministry of Agriculture, and Ministry of Education, ministries dealing with labor, regional development, Customs, science, and research, as well as the MOE. An IPA aspiring to have "best practices" therefore needs to communicate and cultivate a "Team Armenia" approach with these public and private sector partners (industry associations, consultants, logistics partners, suppliers, banks, etc.).

While there is regular collaboration between ministries, there is an onus on IPAs to nurture this collaboration with strategic partners. The participation of ministers on investment promotion missions abroad or at investment seminars and workshops in Armenia will bring better understanding of action needed to attract investment. Some small OECD and EU countries conduct over 25 overseas ministerial missions abroad; organized by IPAs but led by ministers. Opening doors to potential investor companies is often greatly assisted when ministers are involved. This culture of collaboration and cooperation is a feature of all "best-practice" IPAs and a key part of good leadership.

#### **SHARED VALUES (THE CORE VALUES OF THE ORGANIZATION THAT ARE EVIDENCED IN THE CORPORATE CULTURE AND THE GENERAL WORK ETHIC).**

Shared values represent the vision, core beliefs, and expectations that employees and stakeholders have or do not have. Some of the most successful IPAs adopt a business-like and commercial style approach to their operations.

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<sup>178</sup>[Investment Promotion in Eurasia: A Mapping of Investment Promotion Agencies](#)

The “Corporate Guide” suggests that there is good teamwork at Enterprise Armenia.

Based on consultation with Enterprise Armenia, some of the perceived gaps may be:

- a. Lack of stated vision on goals and targets on what Enterprise Armenia seeks to achieve. For example, basic targets on number of contacts with investors, number of investor visits, number of FDI projects per year, etc.
- b. Lack of value propositions and mission statements to attract potential investors.
- c. Absence of a culture of keeping shared information systems and databases, lack of comprehensive understanding on Enterprise Armenia’s budget volumes, distribution principles, and their implications for staff.

## **5.2. ENTERPRISE ARMENIA: IMPROVING PERFORMANCE AND CAPABILITIES**

The approach described in previous sections of this chapter, combined with the summary SWOT analysis, benchmarking, and comparative analysis provide insights on:

1. Descriptions of “best-practice” investment promotion and methodologies to address constraints to investment promotion and monitoring of results, especially of the number of greenfield projects attracted annually.
2. Gaps in Armenia’s approach to investment promotions compared to international best practice and in the results achieved by Armenia.
3. Experiences from other countries on successful methods and steps to improve investment promotion.

Armenia has attracted some significant international investment projects but has not been a leading competitor compared to many similar-sized countries, including adjacent countries. International competition for FDI is strong and increasing. Over 500 national and regional institutions compete for FDI, especially for mobile greenfield projects. In addition, numerous other sub-regional and local organizations (for example, Shannon Airport, Port of New Jersey, City of London, and networks of FREE Zones worldwide) are active competitors for FDI.

In many countries the level of international competition for FDI is poorly recognized and countries fail to compete in a proactive and successful way. This is due to several factors, including:

- Governments not adequately recognizing the potential and transformative benefits of FDI and how these benefits greatly exceed the cost of funding an IPA and its promotion activities.
- Improvements in the business environment moving too slowly or not at all.
- Essential policies, institutions, and promotion programs being deficient.
- Role of IPAs and requirements for best-practice strategies and promotion not understood.
- IPAs being underfunded, understaffed and unable to compete effectively for investment projects.

Table 5.7 shows the challenges perceived by IPAs as constraints to attract investments.

**TABLE 5.7: CHALLENGES PERCEIVED BY IPAs THAT CAN LIMIT THE ABILITY OF THEIR AGENCY TO ATTRACT INVESTMENT IN THE NEXT 5 TO 10 YEARS**

(Ranking from the most to the least important factor)

RANKING	CHALLENGES
1	Inadequate Resources (for example, budget, restrictions on IPA spending)
2	Inadequate Staff (for example, staff numbers, experience, and skills)
3	Wider Business Climate or Regulatory Framework
4	Inadequacy or Instability of the Mandate (for example, frequent changes)
5	Lack of Political Support for the IPA
6	Emergence of New Players in the Market (for example, other bodies, competitors)

Source: OECD-IDB survey of Investment Promotion Agencies (2017), adapted by Strategy Partners Ireland.

Enterprise Armenia has faced enormous challenges since the end of 2019 due to the COVID-19 pandemic and global recession. It has achieved commendable progress in creating promotional material (website, brochures, sector profiles), in meeting business delegations, and in its messages to existing and new investors. Building a best-practice agency is an evolutionary process that demands continuous improvement, assessment, and innovative change.

Consultations undertaken suggest that government officials are still learning the value of having an IPA and the essential support needed to match peer countries. This is not uncommon in developing and transition countries. Armenia needs to match the approach and methods of competitor countries and agencies. These demands change at policy, strategy, and institutional levels. As the global investment environment improves, Armenia should urgently seek to strengthen its promotion agency and move to “best-practice” structures and activities. Enterprise Armenia (as well as the MOE) should ideally seek to upgrade communication of this role and benefits of new FDI (from existing and new investors) to the public and private sector.

Figure 5.9 provides a SWOT analysis of Enterprise Armenia to become a best-practice agency and helping Armenia to achieve substantial growth in FDI.

**FIGURE 5.9: SUMMARY SWOT ANALYSIS OF ENTERPRISE ARMENIA**

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>– New IPA to promote FDI and domestic investment established and seeking to function as partner to investors.</li> <li>– Prime Ministry and MOE support on Board of Trustees.</li> <li>– Enterprise Armenia team—young and committed to building progress.</li> <li>– Meeting various international delegations on business issues is positive step.</li> <li>– Priority sector focus.</li> <li>– Free zones and incentives.</li> </ul>	<ul style="list-style-type: none"> <li>– Small scale and very low budget versus “best-practice” agencies in competing countries.</li> <li>– Organization mandate and responsibility is very wide: FDI, domestic investment, exports, and SMEs.</li> <li>– Confusion on name/brand of agency.</li> <li>– No investor/private sector person on Board.</li> <li>– Best-practice operational functions difficult to achieve with small team and wide mandates.</li> <li>– Challenges in exporting to European countries—agency advice here is weak.</li> <li>– Low level of FDI projects attracted. Low focus on sectors where projects emerging.</li> </ul>

<ul style="list-style-type: none"> <li>– Quality of people and general education levels, including reputation for science and technology skills-but needs innovative projection.</li> <li>– Selected foreign investors have achieved success in Armenia-needs more publicity.</li> <li>– Diaspora: international network that is investing in Armenia and important partner for Enterprise Armenia’s promotion work.</li> </ul>	<ul style="list-style-type: none"> <li>– No testimonials from existing investors.</li> <li>– Website and brochures need upgrading.</li> <li>– Investment opportunity image of Armenia not well known. Media reports on conflict and instability.</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>– EU partnership process and access to EU and EAEU: opportunities for FDI and export promotion.</li> <li>– Armenia’s value propositions could be better defined and projected. Competitive advantages for investors in Armenia need better articulation.</li> <li>– Developing FDI linkages with domestic companies (ideally in cooperation with FEZs) can significantly increase net economic benefit of FDI.</li> <li>– Joint marketing with FEZs and their networks can positively impact investment attractiveness.</li> <li>– Investment potential exists in manufacturing industries, including new and expanding sectors; for example, medical devices, hospital supplies, BPO, etc.</li> <li>– “Bridge” between Europe and Asia-needs better explanation and projection.</li> <li>– Emergence of new high growth companies (Picsart) enhance country’s image if publicized.</li> <li>–</li> </ul>	<ul style="list-style-type: none"> <li>– Recent political instability and conflict has negatively impacted perception of country.</li> <li>– Security threats in the wider region can negatively impact Armenia.</li> <li>– Low staff numbers and wide mandates make transformation in FDI exceedingly difficult.</li> <li>– Political change could lead to demise of agency. History of change and inadequate support for IPA.</li> <li>– Regional competitors like Georgia and SE European countries can compete better for FDI.</li> <li>– Ongoing economic recession and threat of continued spread of COVID-19.</li> <li>– Relationships with Turkey and Azerbaijan and exclusion from markets.</li> <li>– Transport corridors not addressed by Enterprise Armenia.</li> <li>– Better understanding of FDI and its benefits, and IPA role is needed at Government level.</li> </ul>

The major institutional issues hindering Enterprise Armenia’s operations are summarized below:

**NATIONAL STRATEGY FOR INVESTMENT PROMOTION.** Armenia does not have an integrated national strategy on investment promotion detailing the country’s national priorities to attract investment aligned with national development goals, investment policy, engagement with key stakeholders, and the competitive strengths and potential of each sector and region. Once validated by policymakers, it will serve as a base for Enterprise Armenia’s corporate strategy, structure, and business plans. Enterprise Armenia’s internal documents, such as its corporate guide, Investment Promotion Plan, Marketing Communications Strategy, are not effective documents in the absence of a national strategy on promotion. Clarity of the IPA mission, vision, targets and other elements are essential for successful implementation and assessing performance.

**BUDGET:** An effective and efficient IPA is of primary importance to an economy. It should have dedicated and protected annual funding. Enterprise Armenia would benefit from regular line budget allocations to support the growing staff needed to generate investment and the long-term planning required to execute roadshows, host delegations, reach out to investors in international markets, and eventually place agency staff in overseas locations. Agency expenditures are investments in Armenia’s economic growth. Budgets should be guaranteed and sustainable, based on GOAM and Ministry of Finance budget approvals over periods longer than annual approvals. Ultimately, enhanced resources are key to tapping the full potential of Enterprise Armenia to attract FDI to the country.



**PROCUREMENT RESTRICTIONS:** The nature of investment promotion demands frequent hosting of business delegations, organizing of events, procuring of graphic design and media services, and digital and print advertising, among others. The contracting of services requires technical and quality specifications that must be met by vendors. Statutory requirement to select the lowest-cost bidder has left Enterprise Armenia with no choice when services do not meet requirements of the Terms of Reference or quality expectations. As such, Enterprise Armenia is unable to do the following:

- Host events at short notice that might require reservation of a hotel conference room or coffee-break refreshments. Setting up meeting spaces normally takes several weeks of procurement work, according to Enterprise Armenia's advice.
- Develop a website with all the desired investor-facing features, for example, creating and paying for digital advertising. It is a normal marketing practice to pay for the promotion of a social media post or search-engine optimization of an IPA website. These promotional payments need to go through a procurement process, but digital advertising is not set up to respond to lowest-bid procurement.
- Solutions to these procurement challenges apparently require parliamentary action to allow for technical quality to factor in the scoring of public procurement bids, as well as occasions where it is allowable to single-source among preferred vendors for agreed-upon budget items such as hospitality, without the need to procure every item. A national IPA needs the freedom (via legislation and GOAM approval) to undertake such work without restrictive procurement procedures. Responsibility for the approval of such expenditure should lie with agency management and be subject to audit on an annual basis.

**STAFF NUMBERS:** Enterprise Armenia has a fundamental constraint on the size and budget of the organization. It is the smallest IPA in the Eurasian/Southeast European regions in terms of staff numbers and budget. The limitations associated with its small size is exacerbated by the wide range of mandates that the organization is expected to address. This small size of its IPAs is a historic pattern in Armenia. The former Armenian Development Agency had similar constraints. This issue deserves review and consideration by the Board of Trustees and agency management.

A key question is, what is the appropriate level (number) of staff for Enterprise Armenia in the 2021 to 2026 timeframe. The answer can be seen in recent surveys of 69 IPAs, including IPAs in the Eurasia region.<sup>179</sup> The surveys show that an average number of 40 investment promotion staff (dedicated FDI staff) are employed in these IPAs. Other staff members dealing with different mandates (for example, exports, R&D, tourism, innovation, regional development) are not included in this number.

A wider group of IPAs worldwide, including some of the best-practice IPAs, employ on average 162 investment promotion staff.<sup>180</sup> The investment facilitation and retention work of such IPAs consists of assistance with, for example, project definition (information on local suppliers and clients, meetings, site visits, and airport pickups), assistance with administrative procedures (such as support to obtain visas, tax registration, etc.) and with obtaining financing, aftercare services (structured troubleshooting, ombudsman, intervention, and conflict mitigation), and specific business support

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<sup>179</sup> [Investment Promotion in Eurasia: A Mapping of Investment Promotion Agencies](#)

<sup>180</sup> Ibid



programs (linkage programs including local supplier database, cluster programs, and personnel recruitment programs).

An analysis of ten peer-developed country IPAs in the OECD surveys,<sup>181</sup> that is countries of approximately the same size as Armenia, shows that their IPAs employ 70 investment promotion staff on average. Some of these IPAs (Austria, Czech Republic, Denmark, Estonia, Finland, Hungary, Ireland, Latvia, New Zealand, and Slovenia) have a dual or triple mandate, but the above figure relates only to investment promotion staff. In addition to these countries, it is noteworthy that North Macedonia employs 150 staff in Invest Macedonia and its Free Zone network that works closely with FDI companies, Invest in Estonia has 200 staff, and IDA Ireland, 400 staff.

What is evident from the above figures is that most IPAs especially the more successful best-practice IPAs, employ many more people for investment promotion than Armenia does. Staff employment in an IPA is not the only factor that determines success in attracting FDI, but it is an important contributory factor. Armenia should increase staff numbers in Enterprise Armenia to match competitors, namely 40 staff devoted to investment promotion operations as described in this report.

**STAFF SKILLS:** Best practice agencies will typically have capacity-building plans and well-structured training programs for existing and new staff, which is not the case for Enterprise Armenia. A self-assessment practice by the Enterprise Armenia staff or TNA of the capabilities and skills to attract FDI and promote exports is not conducted except for the one-time specialized TNA for aftercare provided by donors. Those procedures need to be repeated on a regular basis and institutionalized by adopting a training manual to ensure ongoing and focused training to strengthen and support Enterprise Armenia to achieve its objectives and targets.

**MONITORING AND EVALUATION:** Enterprise Armenia does not have a comprehensive performance monitoring and impact evaluation system (including procedures, indicators, and database) to evaluate its economic impact or to measure the effectiveness of its activities. Impact analysis can provide grounds to maintain and change priorities set by policies in the area. It is equally vital for justifying budget allocations for investment promotion.

**ENHANCING STRUCTURES OF ENTERPRISE ARMENIA:** A new revised organogram will be required when increasing the number of staff. It is recommended that a new “Planning and Assessment” Department be set up, which will take on of policy advocacy, monitoring and evaluation of performance, and strategic planning. In addition, the revising the titles of the Marketing and Public Relationships Department and Investment Promotion and Foreign Relations Department is needed as the terms “Foreign relations” and “Public Relations” are not appropriate and are somewhat misleading. Ideally, marketing should involve general awareness creation and mostly indirect contact, and promotion should include direct contacts with investors.

Enterprise Armenia does not have ISO quality standards certification. Each department maintains its own processes and procedures. The plan to develop a CRM system will enhance the existing system and be in line with best-practice systems. Enterprise Armenia needs to ensure good management systems that address, for example, financial control, personnel management, a standard procedures manual, and systems to track progress of work and results.

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<sup>181</sup> Ibid

**PRIVATE PARTICIPATION IN THE ENTERPRISE ARMENIA BOARD:** Unlike high-performing IPAs, there is no private-sector representation on the Enterprise Armenia board. The advantage of such representation, especially by successful FDI investors, is the business knowledge and sectoral insights they can bring to the board and agency management. Armenia should consider more private sector involvement in its agency governing structures. This could be achieved through (a) the establishment of an Enterprise Armenia Supervisory Board with trustees and FDI investors, or through (b) the creation of an Enterprise Armenia Advisory Board (for example, meeting four times a year) that will bring expert sectoral guidance, advice on key trends and opportunities, and investment views to guide agency strategy and operations.

**EFFECTIVE COLLABORATION UNDER TEAM ARMENIA APPROACH:** Countries successful in attracting investment have mastered a whole-of-government approach to investment promotion and facilitation. Effective co-ordination among various authorities, including at local government levels, and implementing agencies (investment promotion, export and trade promotion, SEZs, business registration, and land allocation) is a daunting task.<sup>182</sup> In this context a Team Armenia approach should help Enterprise Armenia establish successful cooperation among embassies, consulates, and pro-bono and diaspora networks.

**LOCATION BENCHMARKING:** Armenia and Enterprise Armenia do not perform location benchmarking in a comprehensive and regular manner, which is a key technique used to assess the competitiveness of an area or country in attracting FDI. Competitive positioning entails: (1) understanding your country's strengths, weaknesses, opportunities, and threats; (2) more importantly, understanding your country's relative strengths vis-à-vis competing regions (that is, differentiators); (3) understanding where your country is lacking so that you can ensure these aspects are avoided or de-emphasized or, more importantly, prepare a carefully crafted rebuttals in advance and provide suitable answers so that investors do not focus on the negative, but rather on the opportunity and positive aspects.<sup>183</sup> This report provides a detailed description of the benchmarking exercise in Chapter 2.

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<sup>182</sup> OECD Policy Framework for Investment (2015), p. 40

<sup>183</sup> Guidelines for Investment Promotion Strategy Development, Henry Loewendahl and Scott Bryan, WAVTEQ (2019), p.19

## 5.3 RECOMMENDATIONS

Table 5.9 summarizes the gaps and provide recommendations that Enterprise Armenia should take to enhance its organization and activities.

**TABLE 5.9: SUMMARY OF GAPS AND RECOMMENDATIONS**

GAPS/CONSTRAINS/RISKS	RECOMMENDATIONS
<p>Armenia does not have an integrated national strategy on investment promotion detailing the country's national priorities to attract investment aligned with national development goals, investment policy and engagement of the key stakeholders as well as tailored to the competitive strengths and potential of each sector and region.</p>	<p>New national strategy with specified goals on new projects per year (per population) is needed, and with goals on job creation and exports. High-level goals might be to become (1) a regional FDI leader in number of new projects per year, (2) Match peer countries in EU, for example, Estonia, Latvia, Lithuania, Slovenia, and move closer to FDI levels in other peer EU countries by 2026.</p>
<p><b>ENTERPRISE ARMENIA SCALE, BUDGET, AND MANDATES</b></p> <ul style="list-style-type: none"> <li>- Enterprise Armenia has a fundamental constraint in the size of the organization. It is the smallest IPA in the Eurasian/Southeast European regions in terms of staff numbers and budget. This problem of being small scale is exacerbated by the wide range of mandates it has been given.</li> <li>- It should have essential resources to compete effectively. Strengthening the IPA should be a core part of investment promotion strategy.</li> </ul>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>- Have allocated and protected annual funding. Budgets should be guaranteed and sustainable. Ultimately, enhanced resources are key to tapping the full potential of Enterprise Armenia to attract FDI to the country.</li> <li>- Have the staff numbers to match competitors, namely 40 staff devoted to investment promotion operations.</li> <li>- Develop a new organogram, prepare department work specifications, individual job specifications, and KPIs.</li> </ul>
<p><b>ENTERPRISE ARMENIA CORPORATE STRATEGY</b></p> <p>Enterprise Armenia does not have a coherent corporate strategy document articulating implementation arrangements of this strategy on targets, sector and client focus, value propositions, regions, property solutions, linkage with domestic industry, partners for success, building IPA capability, and new initiatives and resources.</p>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>- Develop Enterprise Armenia corporate strategy on arrangements and processes to attain the targets set for it in the national strategy for investment promotion and make it publicly available.</li> </ul>
<p><b>PRIVATE SECTOR REPRESENTATION AND EXPERTISE</b></p> <p>The private sector is not involved in Enterprise Armenia's governance structures. In best-practice agencies, this is a frequent practice, with clear ethical and governance guidelines agreed upon to avoid any conflict of interest. In addition, the appointment of academics with, for example, R&amp;D experience to IPA boards, has been a positive feature in some countries.</p>	<p>Enterprise Armenia should appoint FDI investors (pro bono) to join in the its structures. This could be achieved through (a) the establishment of an Enterprise Armenia Supervisory Board with trustees and FDI investors or through (b) the creation of an Enterprise Armenia Advisory Board that will bring expert sectoral guidance, advice on key trends and opportunities, and business investment views to the agency's strategy and operations.</p>

<p><b>COLLABORATION BASED ON THE TEAM ARMENIA APPROACH</b></p> <ul style="list-style-type: none"> <li>- Enterprise Armenia does not have a network of international offices. The support of Armenian embassies and consulates is therefore necessary and vital for success in FDI. This role needs to be formally specified and agreed upon.</li> <li>- Like diplomatic networks, diaspora and pro bono networks have a vital role in promoting awareness and interest in investment in the country. Armenia has taken steps here, but this needs to be advanced. Priority focus should be given to organizing “site visits” for potential investors to Armenia.</li> </ul>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>- In agreement between relevant ministries, use the network of embassies and consulates to distribute information, provide information on possible investors in their host country, and provide support at trade fairs/media events/workshops/high level meetings/press contacts. The same process should apply to pro bono and diaspora networks that shall be created.</li> <li>- Develop an agreed program of work of pro-bono and diaspora networks and embassies with the initial objective being to identify investment interest and obtain an exploratory visit to Armenia.</li> </ul>
<p><b>RESTRICTIVE PROCUREMENT PROCEDURES</b></p> <ul style="list-style-type: none"> <li>- A national IPA needs the freedom to undertake its work without undue restrictions. It needs to be able to respond quickly and effectively in dealing with tasks. Selecting the lowest cost bidder rule has left Enterprise Armenia with no recourse when services do not meet quality expectations.</li> </ul>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>- Seek amendment of the Law on Public Procurement to allow for rapid and less bureaucratic procedures to select service providers that can meet quality standards and not just lowest costs. This will enable Enterprise Armenia to respond better to investor needs.</li> </ul>
<p><b>BENCHMARKING WITH PEER COMPARATOR COUNTRIES</b></p> <ul style="list-style-type: none"> <li>- Armenia and Enterprise Armenia do not perform location benchmarking in a comprehensive way and in a regular manner which, is a key technique used to assess the competitive position of an area. It is an essential part of “gap analysis” and setting targets to close the gap with competitors. Enterprise Armenia and MOE need to develop Armenia’s process here.</li> </ul>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>- Conduct annual benchmarking with peer countries based on the available sources of information and data.</li> <li>- Amend the data collection/statistics gaps in existing systems to ensure accurate and comprehensive data availability.</li> <li>- After regular process is established, deeper analysis on peer countries should follow and provide further learning experiences for Armenia.</li> </ul>
<p><b>COMPARATIVE ANALYSIS OF ENTERPRISE ARMENIA WEBSITE AND BROCHURES:</b></p> <p>Analysis shows that there is significant scope for improvement. In particular, the Enterprise Armenia website and brochures are lacking in:</p> <p><b>(1) Visual Images</b>—pictures of people, Armenia’s biggest competitive advantage;</p> <p><b>(2) Comparative Advantages</b>—people availability, education, and skill levels;</p> <p><b>(3) Comparative Data</b>—not just costs but costs compared to competitors;</p> <p><b>(4) Cost of Doing Business</b>—labor costs, various utilities, land, infrastructure, etc.;</p> <p><b>(5) Existing Main FDI Investors</b>—profiles of success and testimonials,</p>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>- Develop an Enterprise Armenia information strategy and action plan on information.</li> <li>- Upgrade the Enterprise Armenia website content and all brochures and promotional material based on the summary assessment conducted under this report. Annex 5.1 shows an assessment of Enterprise Armenia’s website as a guideline on upgrading work by Enterprise Armenia to match international “best practice.” Website and brochures are the organization’s “shop window” and are a vital source of information for investors and their advisors. On an ongoing basis Enterprise Armenia should, ideally, compare and benchmark its website and brochures with competitor countries.</li> <li>- <b>Develop the national and regional value propositions</b> in accordance with the national and regional messages and ensure that full</li> </ul>

<p><b>(6) Supplier Services/Data</b>—and links to other sources here;</p> <p><b>(7) Export Transport Routes</b>—indicative costs, and some links to logistics experts;</p> <p><b>(8) Better Sector Profiles and Value Propositions</b>; and</p> <p><b>(9) Locations</b>—competitive locations for investors, including regional locations.</p>	<p>information on property/sites, such as sites available, existing empty factories or offices, as well as the on ownership, costs, and local construction firms, is available.</p>
<p><b>ENHANCING STRUCTURES OF ENTERPRISE ARMENIA</b></p> <ul style="list-style-type: none"> <li>- In the titles of Marketing and Public Relationships Department and Investment Promotion and Foreign Relations Department “Foreign relations” and “Public Relations” are not appropriate and somewhat misleading in relation to their activities. Ideally, “marketing” will involve general awareness creation and mostly indirect contact, and Promotion to include direct contacts with investors.</li> <li>- A new unit is required to establish monitoring and evaluation function as well as dealing with strategic planning to match best practice.</li> </ul>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>- Review the “Public Relations” and “Foreign Relations” in Enterprise Armenia departments titles and revise the functions accordingly.</li> <li>- Establish a new “Planning and Assessment” Department to deal with policy advocacy, monitoring and evaluation of performance, and a strategic plan for the agency.</li> <li>- Prepare for new larger organization and recruitment in case of increasing staff.</li> </ul>
<p><b>MANAGEMENT SYSTEMS</b></p> <ul style="list-style-type: none"> <li>- Enterprise Armenia needs to ensure good management systems that address, for example, financial control, personnel management, standard procedures manual, and systems to track progress of work and results. Some IPAs apply ISO 9001 certification to ensure quality management of the IPA. ISO 9001 requires a strong customer focus and continual process improvement and motivation of top management, thus ensuring consistent good service. Enterprise Armenia does not have ISO certification.</li> </ul>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>- Introduce an effective management system within Enterprise Armenia to record and maintain enquiries, response and follow-up, contacts with existing and prospective investors, site visits, new projects under implementation, aftercare contacts and issues, analysis and measuring impact on FDI. The planned CRM should ideally encompass all this activity in the long run, but it can be done now on Microsoft Excel®. It will also contribute to the monitoring and evaluation system for the IPA.</li> <li>- Consider an introduction of ISO 9001 certification after a new organization structure is established and staff have more experience.</li> </ul>
<p><b>STAFF AND SKILLS</b></p> <p>Best practice and most successful agencies will usually</p> <ul style="list-style-type: none"> <li>- Seek to employ and retain a mix of graduates with marketing and sales experience, specific sector knowledge, private sector work experience, and good interpersonal skills.</li> <li>- Have capacity-building plans and well-structured training programs based on TNA for existing and new staff, which is not the case for Enterprise Armenia.</li> <li>- Have a staff training manual establishing the written standards for staff that Enterprise Armenia lacks.</li> </ul>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>- Conduct on a regular basis TNA of existing gaps and shortcomings, current capabilities, and existing skills versus the capabilities and skills needed for effective performance.</li> <li>- Develop a capacity-building plan and well-structured training programs with expert guidance, for existing and new staff based on the training needs analysis. This should include an introduction of “Staff Training Manual” for all staff as well.</li> <li>- Employ and retain staff with the mentioned background and experience and ensure good</li> </ul>

	training and coaching of all staff on a permanent basis.
<p><b>IMPLEMENTING BEST-PRACTICE FUNCTIONS AND BUILDING AN EFFECTIVE ORGANIZATION</b></p> <p>Best-practice IPAs will typically</p> <ul style="list-style-type: none"> <li>Have clear activities in information, marketing and image creation, outreach, direct marketing and selling, investor facilitation, investor aftercares and servicing, linkage and integration, policy advocacy, and monitoring and assessment. Distinct programs of activity are essential for each function.</li> <li>Have addressed their strategy, structure, systems, staff, skills, style, and shared values (7S framework) as the organization develops. This is a continuous management process to address gaps and ensure effective structures and achieve specified goals and targets.</li> </ul>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>Review its functions and compare with best-practice functions.</li> <li>Review and crosscheck its internal corporate documents with such a framework to ensure an effective management structure</li> <li>Use SWOT analysis, benchmarking and comparative analysis on Enterprise Armenia as described in this report.</li> <li>Prepare an action program on all the recommendations, functions, and activities (as part of Enterprise Armenia's strategic plan).</li> </ul>
<p><b>DIRECT CONTACT WITH INVESTORS</b></p> <p>The most successful best-practice IPAs excel at direct contact with existing and potential investors. In many IPAs, this direct contact element is missing or infrequent or at the wrong level in a company. Frequency of direct contact with investors is probably the biggest differentiator between best-practice agencies and other agencies, as well as quality of meetings.</p>	<p>Enterprise Armenia should establish written standards of investment generation, facilitation, and servicing (main functions dealing with the direct contact), and train staff in meeting those standards. For example, this would address response time on enquiries, clear reports on visits to companies, and site visits, as well as specifying action needed and next steps.</p>
<p><b>LINKAGE</b></p> <p>Enterprise Armenia should ideally be leading a continuous program of linkage promotion and facilitating workshops and meetings between international and domestic companies to maximize linkage opportunities. While contacts with such companies are made it appears that no existing structured programs on linkage are being implemented. This is a significant gap.</p>	<p>Enterprise Armenia should</p> <ul style="list-style-type: none"> <li>Clarify existing linkage programs being promoted by other groups or donors.</li> <li>Create an Enterprise Armenia program for linkage opportunities and implement action.</li> <li>Undertake linkage activity and training, including the staff dealing with SMEs.</li> <li>Implement a pilot program, for example, five MNCs and up to ten potential local suppliers. This could form the basis for a wider linkage program.</li> </ul>
<p><b>MONITORING AND EVALUATION</b></p> <p>Enterprise Armenia does not have a comprehensive framework on FDI result monitoring and impact assessment, in particular the procedures, monitoring indicators, and database. This is a critical element of best-practice policy and promotion and typically involves the IPA and responsible ministry. This gap should be urgently addressed.</p>	<p>Enterprise Armenia should develop a Monitoring and evaluation plan and set up a monitoring and evaluation system for regular monitoring and evaluation to ensure evaluation of <b>OUTPUTS</b> (IPA activity) and <b>OUTCOMES</b> and assessment of impact of the FDI projects and investments achieved in terms of number of projects per year, jobs, exports, direct economic impact, etc. (the recommendation is linked to the similar recommendation for MOE presented in chapter 2).</p>

## CHAPTER 6. INVESTMENT REFORM ACTION PLAN

REFORM PILLAR	REFORM ACTION	PRIORITY
<b>1. POLICY AND STRATEGY</b>	1.1 Develop a comprehensive national investment policy document that articulates Armenia's FDI vision and objectives.	High
	1.2 Develop an official Investment Policy Statement communicating the government's investment goals and strategies to investors.	High
	1.3 Amend the Law on Foreign Investments to address the gaps and issues discussed in the Investment Reform Roadmap.	Medium
	1.4 Conduct annual benchmarking of Armenia's investment attraction (promotion) against its peers to inform development of future policy and develop an action plan for better performance.	High
	1.5 Conduct sector and value-chain analysis on competitive advantages and investment potential.	High
	1.6 Assess the investment potential of the diaspora through the Armenian Diaspora Investor Survey.	High
	1.7 Introduce a monitoring and evaluation system for FDI in compliance with international best practice.	High
	1.8 Establish a high-level public-private dialogue platform between GOAM and investors. Conduct annual Investor Day public-private dialogue forums.	High
<b>2. INCENTIVES</b>	2.1 Develop the appropriate legislative framework to introduce the new investment incentive systems recommended in the Investment Reform Roadmap.	High
	2.2 Strengthen capacities for granting, administering, monitoring, and evaluating investment incentives.	Medium
<b>3. INSTITUTIONAL SET-UP</b>	3.1. Develop the appropriate legislative and regulatory framework defining the clear division of roles, functions, and responsibilities of the state and quasi-state bodies involved in investment policy, facilitation, and promotion.	High
	3.2 Enhance capacity of regional administration and communities to assist Enterprise Armenia in investment promotion.	Medium
	3.3 Enhance capacity of MOFA and diplomatic missions in investment promotion.	High
	3.4 Reform the trade representatives' institute.	High



REFORM PILLAR	REFORM ACTION	PRIORITY
	3.5 Establish a coordination mechanism – Investment Council to facilitate the work of the relevant Government ministries and other entities in both pursuing the investment reform agenda and improving investment promotion. Ensure private sector participation in working groups/cluster-advisory groups of the Investment Council.	High
<b>4. PROMOTION AND FACILITATION</b>	4.1 Develop a country Investment Promotion Strategy with specified goals on new projects per year (per population), job creation, and exports based on the formulated investment policy.	High
	4.2 Develop a corporate strategy for arrangements, processes, and activities in information, marketing and image creation, outreach (direct marketing and selling), investor facilitation, investor aftercare and servicing, linkage and integration, policy advocacy, and monitoring and assessment to attain targets set for Enterprise Armenia and publicize on the Enterprise Armenia website.	High
	4.3 Develop Enterprise Armenia's Information Strategy and action plan, including updates of existing information, brochures, PowerPoint presentations, and profiles. Develop a new modern, functional website for efficient and better presentation of information. Upgrade website content with professional and attractive content, aligned with international standards.	High
	<p>4.4 Strengthen Enterprise Armenia with appropriate organizational and human capacity by</p> <ul style="list-style-type: none"> <li>– Allocating a dedicated and sustainable annual funding for implementation of the investment promotion strategy</li> <li>– Increasing staff numbers to match competitors and be able to implement the investment promotion strategy</li> <li>– Introducing an effective management system to record and track enquiries, responses and follow-up, contacts with existing and prospective investors, site visits, new projects under implementation, aftercare contacts and issues, analysis, and impact on FDI. The CRM should ideally encompass all this activity in the long run</li> <li>– Considering obtaining ISO 9001 certification after a new organization structure is established and staff have more experience</li> <li>– Identifying countries where Enterprise Armenia should have representatives/offices and set them up</li> <li>– Developing a capacity-building plan for Enterprise Armenia senior management and staff.</li> </ul>	High



## ANNEX 3.1. OVERVIEW OF THE INVESTMENT INCENTIVES IN OTHER COUNTRIES

### HUNGARY<sup>184</sup>

#### TAX INCENTIVES

- **Development Tax Allowance.** The incentive may be claimed for a 13-year period (beginning once the development is completed) in corporate income tax returns within a maximum period of 16 years from the original application for the incentive. In any given tax year, the tax incentive is available for up to 80 percent of the tax payable, but, in total, up to the state aid-intensity ceiling.

#### CASH GRANTS/SUBSIDIES

- **Asset-based VIP Cash Grant** where the additional net sales revenue and gross wages of employees of the company are considered key elements from an eligibility point of view, besides the development of the region where the investment is implemented.
- **VIP Cash Subsidy for the creation or the expansion of business service centers (BSC),** regardless of the investment volume, if the investor creates at least 50 new jobs in the field of BSC activities as defined by Government Decree.
- **Subsidy on asset or job creation basis:** in the first case, costs related to the purchase of tangible and intangible assets shall determine the eligible costs of the investment, in the second case, the 24-month personnel-related expenditures related to the new jobs created within a period of three years shall be considered as eligible costs.
- **Cash Subsidy in R&D,** the investors shall reach at least €3 million of R&D project(s)-related expenditure during a minimum one and maximum three-year-long period and increase the R&D headcount by 25 employees. Eligible costs may be the costs of the R&D project(s) to the extent and for the period of the project(s), such as personnel-related costs, depreciation of assets, material-related costs, or the cost of contractual research.
- **Workshop Establishment and Development Cash Subsidy.** Eligibility criteria is the number of students contracted by the company, with at least 25 contracted students. The maximum aid intensity of the workshop establishment and development subsidy is 73 percent of the eligible costs. It will be increased up to a maximum 100 percent of the eligible costs if the beneficiary undertakes that all (or at least a part of) its practical trainings will be carried out in the established vocational training center, but using the equipment and machinery purchased within the framework of the workshop establishment and development subsidy.
- **Training Subsidy.** The subsidy is available to investors creating at least 50 new jobs. This subsidy is provided for trainings with a maximum aid intensity of 50 percent. The aid intensity can be increased further in the case of small and medium-sized enterprises and for training of disabled or disadvantaged workers.
- **Subsidies from EU Funds.** Investments of less than €10 million can also qualify. Hungary has access to EU funds for a number of development goals, such as asset acquisition, infrastructural development, new construction, renovation, service development, job creation, and financing of human resource costs. The conditions for applying, the timing, and the total amount of the subsidy available vary from tender to tender.

### ESTONIA<sup>185</sup>

#### TAX INCENTIVES

<sup>184</sup> “[Invest in Hungary](#)” Official brochure of Hungarian Investment Promotion Agency, 2019

<sup>185</sup> [Invest in Estonia: Taxation & Incentives](#)

- **Zero percent corporate income tax** for all reinvested and retained profits and a 20-percent income tax (for natural persons) and 14 percent (for legal entities) only for all distributed profits (both actual and deemed).

#### GRANTS (GRANTS HIGHER THAN €500,000 HAVE BEEN CONSIDERED)

- **Large Investor Support Grant.** This grant is intended for industrial companies with €50 million+ turnover to start new manufacturing operations or expand manufacturing operations with new product lines if the project is strategic for government and at least €10 million investment is carried out. Grant rate is 10 percent and the maximum project period is 24 months. The eligible costs are building and renovation costs, fixed assets, renting of premises, configuration, transportation, insurance, cost of fixed assets, and intangible assets.
- **Ida-Virumaa Region Industrial Investment Grant.** The purpose is to increase the number of jobs in the industrial sector in Ida-Virumaa through expansions and new undertakings that generate new full-time jobs with salary levels higher than the county average in the manufacturing industry. Supported costs are building and renovation costs, fixed assets, renting of premises, configuration, transportation, insurance cost of fixed assets, intangible assets and subscription to networks.
- **Applied Research Program Grant.** Up to €3 million with the grant rate of 35 to 80 percent for SMEs and large corporates undertaking applied research and experimental development for new products and services in smart specialization areas. Required technology readiness levels 3 to 8 with significant technology, process, product, or service improvement. The eligible costs are staff and R&D partners training and development cost, salary of permanent or temporary staff, market research, feasibility studies, testing, and other R&D-related services costs during the project period and initial IP protection costs.
- **Horizon Europe Grant:** Grants for SMEs and large corporates undertaking R&D activities towards new products and services in various areas of life (health, digital, industry, space, climate, energy, mobility, food, bio-economy and natural resources). Grant rate is up to 100 percent depending on the nature and priority of the R&D project. Supported costs depend on the nature of the individual project. These can be anything from the staff salaries and R&D costs during the project period, to the cost of purchasing assets.

#### MACEDONIA (NORTH MACEDONIA)<sup>186</sup>

##### TAX INCENTIVES

- **Tax Rates.** Corporate income tax and personal income tax rates are both low at 10 percent.
- **Corporate Tax Holiday.** Investors in the free zones (Technological Industrial Development Zones (TIDZ)s) are entitled to a 10-year tax holiday (up to 10 years in proportion to the size of investment and number of employees) for profit and corporate tax.
- **Personal Income Tax Holiday.** The salaries of employees working for TIDZ employers are exempt from personal income tax for a period of up to ten years after the first month in which the employer starts paying out salaries.
- **VAT and Customs Duties Exemptions.** Investors are exempt from payment of value added tax for import and trade of goods in the TIDZs. Additionally, investors are exempt from payment of customs duties for equipment, machines and spare parts.
- **Exemptions from Municipality Tax.** Investors in the TIDZs are exempt from paying municipality tax for construction, as well as fees for land building permits.

##### CASH GRANTS/SUBSIDIES

<sup>186</sup> [Invest North Macedonia: Favorable Tax Environment](#); North Macedonia Investment Climate Statement; US Dept. of State, 2020

- **Construction, Equipment, Plant, and Competitiveness Grants.** Investors are eligible for a grant equal to 10 percent of the cost of plant construction and new machinery, and a grant for improving competitiveness.
- **Investment Costs Grant.** Depending on the industry and size of the investment, the government may decide to cover up to 50 percent of eligible investment costs over a period of 10 years.
- **Co-funding by Government.** The Government may support growth of capital investments and income with a return of 10 percent of investment costs on new machines and equipment, or investment in buildings and land.
- **Concessionary Land-Lease Costs.** Land in the TIDZs is available under long-term lease for a period of up to 99 years at concessionary prices and free connection to natural gas, water, and sewage networks.

## SERBIA<sup>187</sup>

### TAX INCENTIVES

- **Corporate Income Tax Relief.** A 10-year corporate income tax holiday is available for investors who hire more than 100 employees and invest more than €8.5 million (RSD<sup>188</sup> 1 billion). The tax holiday begins once the company starts making a profit.
- **Payroll Tax Incentives.** Employment incentives allow payroll tax deductions for persons registered with the National Employment Service for at least six months continuously. This entitles employers to a sizable relief of taxes paid on net salary from the moment of employment:
  - 1-9 new jobs: 65 percent reduction
  - 10-99 new jobs: 70 percent reduction
  - 100+ new jobs: 75 percent reduction
 (Payroll tax incentives cannot be combined with financial incentives)
- **Free Zones Tax and Duties Exemptions.** Free zones provide tax-free areas for company operations, including unlimited duty-free imports and exports, preferential customs treatment, and VAT exemptions. Earnings generated within free zones may be transferred freely to any country without prior approval and are not subject to taxes or other deductions.

### CASH GRANTS/SUBSIDIES

- **Investment Cash Grants.** To offset initial capital investments and ease the start-up of business endeavours, the government offers financial support for greenfield and brownfield projects in the manufacturing sector and services, which may be subject to international trade. Investors must provide 25 percent of eligible costs. For investment projects of €50 to 100 million, subsidies are offered at up to 25 percent of the total CapEx, reducing to 17 percent for projects over €100 million. However, under certain conditions, large companies can gain support for up to 50 percent of eligible costs of investment projects, medium-sized companies up to 60 percent, and small companies up to 70 percent.
- **Investment Subsidies in Devastated Areas.** Subsidies are provided for investment projects in manufacturing and customer service centers. For manufacturing investments, subsidies are available for any company that invests the equivalent of €100,000 and employs at least 10 persons in a devastated area.
- **Service Center Subsidies.** For service center investments, subsidies are available for companies investing the equivalent of €150,000 and creating at least 15 new jobs in any location.
- **Construction Land Transfer Subsidy.** The central government or a municipality can sell publicly-owned land for construction at lower than the market price for an investment project that is judged to

<sup>187</sup> [Development Agency of Serbia: Financial Benefits and Incentives](#); Serbia Investment Climate Statement; US Dept. of State, 2020

<sup>188</sup> Serbian Dinar

be of national importance (if the land is owned by the government) or an investment project that promotes local economic development (if the land is owned by the municipality).

- **Payroll Subsidies in Devastated Areas.** For each investment project in a devastated area, the state will provide 40 percent of the eligible gross salary costs for new employees in the first two years, up to €7,000 per job, declining to 20 percent of eligible costs up to €3,000 per job in the most developed areas.
- **Incentives for Labor-Intensive Projects.** For labor-intensive projects that create more than 200 new jobs, additional incentives may be offered.
- **Fixed Assets Subsidies.** Subsidies are available for the purchase of fixed assets, on a sliding scale based on the development level at the investment location. This is up to 30 percent of eligible costs in a devastated area, reducing to 10 percent in the most developed areas. However, the total subsidies cannot exceed the amount allowed under EU-compliant state-aid regulations.
- **Innovation Fund/R&D Grants.** The Serbian Innovation Fund offers grants for young entrepreneurs and start-ups, including mini grants for technological innovation, matching grants for commercialization of R&D, and a collaborative grant for joint R&D projects creating new products and services.
- **Loans.** Subsidized loans for start-ups, entrepreneurs, and SMEs are available through the state-owned Fund for Development and ministries. Loans are also available to foreign-owned companies registered in Serbia, provided it has not recorded losses in the previous two years.
- **Guarantees and Project Financing.** Guarantees or joint financing are available from government for foreign direct commercial investment projects, but the government can only participate as a minority partner in jointly financed infrastructure projects.

## GEORGIA<sup>189</sup>

### TAX INCENTIVES

- **Corporate Income Tax.** Corporate Income Tax is at a flat rate of 15 percent, except for FIZs, where it is zero percent.
- **Tax on Retained and Reinvestment Profit.** No corporate income tax on retained and reinvested profit; corporate income tax applies only to distributed earnings.
- **Tax Exemptions in FIZs (Free Industrial Zones).** Foreign companies operating in any one of the four FIZs are exempt from all taxes on profit, property, and VAT.
- **Income Tax Incentives.** Personal income tax for interest, dividend, and royalty is 5 percent.
- **Property Tax.** Property tax is less than 1 percent.
- **Import Tax, Customs Duties, and VAT Incentives on Raw Materials.** Certain imported goods have a zero percent import tax, with an Internal Processing Customs Regime license. Such a license permits import of raw materials that are used for production of goods to be exported, without paying import tax, customs duties and VAT.
- **Excise Duties Exemptions.** Excise duties are levied only on selected types of goods, that is, alcohol, tobacco, oil, gas, automobiles, and mobile communication services.
- **No Additional Taxes.** No payroll, social security, capital gains, wealth, and inheritance taxes.

### CASH GRANTS/SUBSIDIES

- **Government Co-Financing.** Government offers co-financing in the initial stage of project development, particularly in the tourism, manufacturing, energy, and agriculture sectors.<sup>190</sup> In particular:

<sup>189</sup> <https://investinggeorgia.org/en/why-invest/taxation>; Georgia Investment Climate Statement; US Dept. of State, 2020

<sup>190</sup> <https://www.investinggeorgia.org/en/key-sectors/government-incentives>

(a) A cash incentive is offered to **industrial enterprises** operating in one of the areas on the program priority list for the projects with value range in GEL<sup>191</sup> 50,000 to 10,000,000. The incentives include (1) co-financing of the interest on the loan or payments on the item(s) leased for the first three years, (2) co-financing of bank loan interest for the first 36 months: Refinancing rate +3 percent (currently 11 percent), (3) financing of consulting services as part of technical assistance.

(b) The same cash incentives are offered to the hotels located in Tbilisi and Batumi (owning land designated for the hotel) for projects with value range from GEL 50,000 to 4,000,000. In addition, for development of international brands, the incentives are offered to hotels located in Tbilisi and Batumi (owning land designated for the hotel) for the projects with value range from GEL 50,000 to 10,000,000, such as: (1) Co-financing franchising/royalty fees in case of franchise agreement with international brands (up to GEL 300,000 annually), (2) interest co-financing on the loan for the first three years, (3) Co-financing of bank loan interest for the first 36 months: Refinancing rate +3 percent (currently 11 percent), (4) financing of consulting services as part of technical assistance.

(c) The Rural Development Agency (RDA) offers the following programs in agriculture: (1) “Preferential Agrocredit” supports primary production, processing, and storage-realization processes through co-financing interest on loans, (2) “Plant The Future” offers co-financing and financing of different production costs (seedlings, irrigation systems, materials, etc.), (3) “Program of co-financing harvesting agricultural machinery” offers co-financing of costs of agricultural equipment to be purchased (50 percent but not more than GEL 150,000), (4) “Georgian Tea Plantation Rehabilitation Program” supports increase of local tea production by co-financing of costs of agricultural machinery.

- **Free Transfer of Government Land.** Physical Infrastructure Transfer Component offers the free transfer of government-owned real estate to an investor, subject to certain investment obligations.

## BELARUS<sup>192</sup>

### TAX INCENTIVES

- **FEZ.** In the FEZs, Corporate Income Tax is zero percent, plus exemptions from real estate tax, land tax, and rent on government-owned land located within the FEZ, customs duties and taxes on facilities, construction materials, and other equipment used in project implementation. FEZ companies are also exempt from customs duties and taxes on raw materials and materials used in the manufacture of products exported outside the EAEU. Apart from the above, FEZ companies continue to pay VAT, excise duties, ecological tax, natural resource extraction tax, state duty, patent duties, offshore duty, stamp duty, customs duties and fees, local taxes and duties, and contributions to the Social Security Fund. To qualify for the above benefits, FEZ companies must make a minimum investment of €1 million (or at least €500,000, provided the entire sum is invested during a three-year period) and engage in export production or import substitution.
- **Industrial Parks Incentives.** In specific industrial and hi-tech parks, exemption is given for Corporate Income Tax, offshore duty and VAT.
- **Small/Medium Towns.** Businesses in small and medium towns are exempt from Corporate Income Tax for seven years.
- **Investment Agreements Incentives.** Investment Agreements with the Belarusian Council of Ministers and approved by the President of Belarus may offer additional incentives and benefits outside those specified in legislation, on a case-by-case basis. Such preferential incentives and programs for foreign investors, depending on the (priority) sector and industry, may include:
  - Full VAT deduction for the purchase of goods, services (works), or property rights
  - Exemption from import tariffs and VAT on the imports of production equipment
  - Exemption from fees for the right to conclude a land lease
  - Exemption from duties for employing foreign nationals

<sup>191</sup> Georgian lari

<sup>192</sup> [National Investment and Privatization Agency of the Republic of Belarus](#); Belarus Investment Climate Statement; US Dept. of State, 2020.

- Exemption from land tax on land plots in government or private ownership, and from rent on land plots in government ownership, for a limited period.

(Priority sectors are pharmaceuticals, biotechnology, nanotechnologies and nanomaterials, metallurgy, mechanical engineering industries, production of machines, electrical equipment, home appliances and electronics, transport and related infrastructure, agriculture and food industry, information and communication technologies, creation and development of logistics systems, and tourism.)

### CASH GRANTS/SUBSIDIES

**FEZ Operations.** In the FEZs, regulations are simpler than elsewhere in Belarus. They include a simplified procedure for export-import operations.

## KAZAKHSTAN<sup>193</sup>

### TAX INCENTIVES

- **VAT Exemption.** VAT exemption on imports for investment projects or special investment projects. This is subject to the provisions on VAT exemption for imports as set out in the Tax Code of the Republic of Kazakhstan.
- **Special Investment Projects.** For special investment projects, VAT exemption for import of raw materials and/or materials imported as a part of transport vehicles; and/or materials imported as a part of farm machinery, subject to conditions.
- **Investment Preferences.** There is a highly preferential regime for “priority investment projects,” defined as an investment of at least US\$20 million in an area specified by the government. Under the Entrepreneurial Code and Tax Code, this provides tax preferences, customs duty exemptions, investment subsidies, and in-kind grants as incentives for foreign and domestic investment in priority sectors—agriculture, metallurgy, extraction of metallic ore, chemical and petrochemical industry, oil processing, food production, machine manufacturing, and renewable energy. The preference system applies to new and existing enterprises and the timing and scope depends on the sector and the size of investment. Decisions on incentives are made by the Investment Committee at the Ministry of Foreign Affairs on a case-by-case basis.

The preference system specifically offers:

- Exemption from corporate income tax for up to ten years
- Exemption from land tax for up to ten years
- Exemption from property tax for up to eight years
- Exemption from customs fees for the import of technological equipment and spare parts for up to five years.

(The government is currently considering a bill to introduce new measures, including expanded access to investment tax credits and lower thresholds for tax preferences for textile projects and PPP development.)

- **SEZ Incentives.** SEZs offer exemption from corporate income tax, land tax, property tax, VAT, and customs duties on imported goods. They also provide a special customs zone regime outside the EAEU.

### CASH GRANTS/SUBSIDIES

- **Investment Preference Subsidies.** The Entrepreneurial Code and Tax Code offer investment subsidies and in-kind grants as incentives for foreign and domestic investment in priority sectors (see above). Firms in priority sectors receive tax and customs duty waivers, in-kind grants, investment subsidies, and simplified procedures for work permits. The Investment Preferences System provides reimbursement of up to 30 percent of actual expenses on construction works and purchase of equipment.

<sup>193</sup> [Kazakh Invest: Investment Activity](#); Kazakhstan Investment Climate Statement; US Dept. of State, 2020

- **Government Guarantees and Co-Funding.** A governmental guarantee or joint government financing are normally used for large infrastructure projects.
- **SEZ Subsidies.** The SEZs offer free land for investors, simplified procedures, exemption from labor permits and quotas for projects above US\$6 million.

## UKRAINE<sup>194</sup>

### TAX INCENTIVES

- **New Incentives Regime.** In 2021 the Law “On State Support for Investment Projects with Significant Investments in Ukraine” came into force, introducing a comprehensive legislative framework aimed at attracting large investments to Ukraine through a package of special incentives for investment projects meeting certain criteria. Ukraine Invest will be the primary point of contact for investors applying for incentives. An Explanatory Guide on the Law is also available to explain the process to potential investors, providing information on available incentives and applicable criteria. However, the Law is at an early stage (“Unofficial Translation”) and is not specific on the exact number of incentives available—for example, “exemption from payment of certain taxes and fees.”
- **Investment Managers.** As part of this policy, Ukraine recently introduced investment incentives and offers a dedicated government investment manager for each investor investing US\$100 million and over.
- **Corporate Income Tax Exemption.** Any investor who invests at least US\$10 million in a large-scale privatization project will be exempt from corporate income tax for five years.
- **Accelerated Depreciation.** Previous incentives for investors, such as accelerated depreciation rates for fixed assets, including property, plant, and equipment, remain applicable.
- **Customs Duties Exemption.** Foreign investors are exempt from customs duties on any in-kind contribution imported into Ukraine for the company’s charter fund, although import duties must be paid if the company sells or transfers the property.

[Ukraine does not have SEZs or FEZs.]

### CASH GRANTS/SUBSIDIES

- **Loans to Small Business.** The government launched a program that offers loans to Ukrainian micro and small enterprises at discounted rates of 5, 7, or 9 percent.

## RUSSIA<sup>195</sup>

### TAX INCENTIVES

There are many types of investment incentives in Russia:

- **Regional Incentives.** These are granted by regional or local authorities and provide reduced tax rates (primarily the given region’s portion of corporate income tax, property tax, and transport tax) to large investors or entities operating in specific industries up to 2023. Local land tax incentives are also frequently available. The size of an entry investment is usually in the range of around RUB<sup>196</sup>50 million to 150 million.
- **Investment Tax Credit.** These are aimed at stimulating renewal of fixed assets. Investors can choose to use depreciation or to deduct the cost of investment (cost of fixed assets acquired) directly from the corporate income tax. Up to 90 percent of expenses can be deducted from the regional corporate income tax and up to 10 percent from the federal corporate income tax, but the amount of regional corporate income tax must be at least 5 percent of the tax base. The amount of federal corporate

<sup>194</sup> UkraineInvest: [On State Support for Investment Projects with Significant Investments in Ukraine](#); UkraineInvest: [Incentives for Significant Investments: Explanatory Guide](#); Ukraine Investment Climate Statement; US Dept. of State, 2020

<sup>195</sup> <https://taxsummaries.pwc.com/russian-federation/corporate/tax-credits-and-incentives-2020>; Russia Investment Climate Statement; US Dept. of State, 2020

<sup>196</sup> Russian rubles



income tax may be reduced to zero. It is expected that around half of the regions may introduce the law allowing application of the investment tax credit as of January 1, 2020. From 2021 onward, regions may also establish investment tax credit for R&D activities.

- **Special Tax Regimes in SEZs, Industrial Parks, Hi-tech Parks.** SEZs, industrial parks, and hi-tech parks have additional tax and infrastructure incentives to attract investment, including exemption from corporate income tax, VAT, property tax, and import duties, as well as partial exemption from social fund payments. Investors in SEZs also have free customs zones. There are numerous types of SEZs, including industrial zones, technical research and implementation zones, tourism and recreation zones, and port zones. The minimum amount of investment to be eligible for such incentives is RUB120 million with an investment of RUB40 million within the first three years and RUB400 million within three years from the date of obtaining resident status in a port zone for port facilities construction, or RUB120 million in case of reconstruction. Most regions also provide their own incentives with respect to corporate income tax and transport tax. Reduced social contribution rates are available in industrial zones for R&D.
- **Regional Investment Projects and Special Investment Contracts (SPICs).** Under SPIC legislation the following incentives apply: (1) non-application to the investor of the amendments to the Tax Code which worsens its position and (2) application of a reduced income tax rate if sales from SPIC products account for at least 90 percent of taxable income.
- **Advanced Development Zones (ADZs).** These were initially established to develop the Russian Far East but is also available in Komi Republic, Smolensk region, etc. ADZs offer special terms for companies operating in certain sectors (for example, agriculture, textiles and garments, chemicals, pharmaceuticals, furniture, telecommunications, education, science, and technology), including corporate income tax and property tax incentives, free customs zones, project financing, and simplified rules for hiring foreign employees. Companies in ADZs have the following tax incentives:
  - Zero rate on the federal portion of corporate income tax for five years.
  - Reduced regional portion of corporate income tax (no more than 5 percent during the first five years of profitable sales and at least 10 percent during the following five years).
  - Reduced social contributions (7.6 percent instead of the standard 30 percent) over 10 years.
- **The Free Port of Vladivostok.** Free Port Vladivostok investors have the same tax incentives as those in ADZs.
- **Activities Incentives.** These are related to certain activities (for example, R&D and corporate income tax) and are as follows:
  - Certain R&D services are exempt from VAT.
  - Certain R&D service-related expenses, as listed by the government, are deductible using a coefficient of 1.5.
  - From 2021, a reduced corporate income tax rate of 3 percent will be available for qualified IT and technology companies. Reduced social contributions apply as well.
- **Investments Protection and Promotion Agreements (IPPAs).** This is an agreement between a business and the state for investment in a Russia-based project, and ensures a stable tax regime for the project. The state may also provide other types of aid and support. An IPPA is subject to an investment of RUB200 million and over.
- **Special Project Incentives.** Participants in the Skolkovo Innovation Centre are exempt from corporate income tax, property tax, and VAT and have reduced rates for social fund contributions.
- **Foreign Tax Credit.** Credit relief is available for foreign taxes paid up to the amount of the Russian tax liability that would have been due on the same amount under Russian rules. Since 2005, tax breaks and other incentives were available to foreign companies in certain sectors in exchange for producing locally, but Russia agreed to eliminate elements that were inconsistent with the Trade-Related Investment Measures Agreement.
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#### CASH GRANTS/SUBSIDIES

- **Regional Incentives.** Allocation of budget subsidies, partial compensation of CapEx, provision of guarantees to banks, simplified access to infrastructure facilities, lower rental charges, and administrative and legal support.
- **Vehicle Manufacturing Incentives.** The Ministry of Industry and Trade operates a points-based system to estimate vehicle local content levels to determine the original equipment manufacturers' eligibility for Russian state support.

## ANNEX 3.2. COMPARISON OF THE INVESTMENT INCENTIVES IN OTHER COUNTRIES

### INCENTIVES COMPARISON - ARMENIA AND COMPARATOR COUNTRIES

	ARMENIA	BELARUS	ESTONIA	GEORGIA	HUNGARY	KAZAKHSTAN	MACEDONIA	SERBIA	RUSSIA	UKRAINE	AVGS (EXCL. ARMENIA)
CORPORATE INCOME TAX	18%	18%	20%	15%	9%	20%	10%	15%	20%	18%	16.11%
CORPORATE INCOME TAX INCENTIVE—OUTSIDE FREE ZONES	Accelerated depreciation; deductions of dividends; R&D; for creating new jobs; reduced income tax for IT start-ups	Yes, 0% up to 7 years in small/medium towns	Yes, 0% for retained profits only	Yes, 0% for retained profits only	Yes, up to 80%	0% for 10 years for priority investment projects	No	Yes, 0 percent for 10 years, plus reduction in payroll tax	Yes, under regional incentives, ADZs and SPICs and tax credits for renewal of fixed assets. Plus 3% for IT companies	0 percent for US\$10 million investment in privatization projects	Yes, usually subject to conditions
CORPORATE INCOME TAX INCENTIVE—FREE ZONES	Yes, and for border areas and specified regions	Yes, 0%	N/A	Yes, 0%	N/A	Yes, 0%	Yes, 0% for 10 years	N/A	Yes	N/A	Yes, where free zones exist
VAT EXEMPTIONS—OUTSIDE FREE ZONES	VAT deferral for three years; VAT exemptions for medical products; goods in transit; R&D	No	No	No	No	Yes, 0% on imports for special investment projects	No	No	Yes, for R&D and for Skolkovo Innovation Center	No	Mostly "No"

VAT EXEMPTIONS - FREE ZONES	Yes	Yes, in industrial zones	No	Yes	No	Yes	Yes	Yes	Yes	N/A	Mostly "Yes"
CUSTOMS DUTIES EXEMPTIONS - OUTSIDE FREE ZONES	Yes, from non-EAEU country if it cannot be replaced by a EAEU country	No	No	0% for importing raw materials	No	Exemption up to five years for priority investment projects	No	No	No	Yes	Mostly "No"
CUSTOMS DUTIES EXEMPTIONS - FREE ZONES	Yes	0% for importing raw materials	No	0% for importing raw materials	No	Yes	Yes	Yes	Yes	N/A	Mostly "Yes"
GRANTS/ SUBSIDIES - OUTSIDE FREE ZONES	Yes, for certain agribusiness enterprises, including loans and leasing costs	No	Yes, multiple	Free transfer of government. land	Yes, multiple	Up to 30% for priority investment projects	Yes. multiple	Yes. up to 25% of eligible costs, plus multiple others	Yes. partial contribution to CapEx under regional incentives	No	Mostly "Yes"
GRANTS/ SUBSIDIES— FREE ZONES	Yes, for certain agribusiness enterprises, including loans and leasing costs	No	N/A	Free transfer of government land	N/A	Up to 30% for priority investment projects	Yes, concessionary land costs	N/A	N/A	N/A	"Yes," where free zones exist
AVAILABILITY OF SELECTIVE INCENTIVE DEALS	No	Yes	No	No	No	No	No	Yes, grant of 50 to 70 percent of eligible costs	Yes, under IPPAs	No	Mostly "No"
AVAILABILITY OF GOVERNMENT CO-FINANCING	No	No	No	Yes	No	Yes	Yes	Yes	No	No	Mixed "Yes" and "No"

## ANNEX 4.1. LIST AND ASSESSMENT OF KEY STRUCTURES RESPONSIBLE—DE FACTO AND DE JURE—FOR INVESTMENT POLICY DEVELOPMENT, INVESTMENT PROMOTION, AND FACILITATION IN ARMENIA

FUNCTION	FULLY COMPLIES	MOSTLY COMPLIES	MOSTLY DOES NOT COMPLY	DOES NOT COMPLY AT ALL	NOTES
<b>OFFICE OF THE DEPUTY PRIME MINISTER TIGRAN AVINYAN</b>					
Function according to the charter					
1. Prepare and present to the Deputy Prime Minister, analytical materials and proposals related to the sectors under the Deputy Prime Ministers coordination.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Coordination of investments and the business environment as well as the coordination and harmonization of the activities of the ministries operating in these areas in practice; refers to both investment policy and investment promotion and facilitation.
2. As tasked by the Deputy Prime Minister, prepare and present assignments and other documents to Deputy Prime Minister.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Ensuring that consultations are carried out for completing the work assigned by the Deputy Prime Minister involving representatives of the competent bodies of the public administration system, specialists and experts.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Solutions to investment and business-related problems often have an interagency nature, which in many cases limits the opportunity for managing the solution at lower levels of the government. Coordination in these sectors is more important, especially taking into account the current distribution of powers between the Deputy Prime Ministers, which also needs harmonization.
<b>MINISTRY FOREIGN AFFAIRS</b>					
INVESTMENT PROMOTION					

FUNCTION	FULLY COMPLIES		MOSTLY COMPLIES	MOSTLY DOES NOT COMPLY	DOES NOT COMPLY AT ALL	NOTES
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Function according to the charter

- |    |  |                          |                                     |                          |                          |  |
|----|--|--------------------------|-------------------------------------|--------------------------|--------------------------|--|
| 1. | Implementing activities to raise awareness of Armenia's domestic and international policies, social, economic, cultural, and other issues, increasing knowledge about Armenia and forming positive opinions about Armenia among the international community. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |  |
|----|--|--------------------------|-------------------------------------|--------------------------|--------------------------|--|

## INVESTMENT POLICY DEVELOPMENT

Function according to the charter

- |    |   |                                     |                          |                          |                          |  |
|----|---|-------------------------------------|--------------------------|--------------------------|--------------------------|--|
| 2. | Implementation of activities set out in the RA law on International Agreements, in particular, reaching mutual agreement on drafting international agreements and for that purpose coordination of relationships between Armenian and foreign parties to the agreement, monitoring the implementation of international agreements, acting as the depositor of international agreements etc. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |  |
|----|---|-------------------------------------|--------------------------|--------------------------|--------------------------|--|

## ENTERPRISE ARMENIA

### INVESTMENT PROMOTION

Function according to the charter

FUNCTION		FULLY COMPLIES		MOSTLY COMPLIES		MOSTLY DOES NOT COMPLY		DOES NOT COMPLY AT ALL		NOTES
1.	Development of business and investment proposal packages aimed at attracting investments into the country's priority investment sectors, record keeping of individual sectors and investment opportunities, and preparing information and analytical packages.	<input type="checkbox"/>		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				The function is not implemented in full due to lack of capacity.
2.	With the help of marketing, communication, and support services attract direct foreign investments, including the use of traditional, digital, and social media marketing programs and trade shows, road shows to foreign countries.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>					The website of Enterprise Armenia is already accessible for information and support; however, it needs improvement. A very limited number of trade shows have been conducted due to the COVID-19 pandemic beginning the year the structure was founded. Capacities in the use of digital marketing tools are limited.
3.	Creating business links between foreign and local companies, promoting dissemination of skills, technologies, innovations, and international connections.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>					In this direction, activities are under way.
4.	Organizing campaigns to build and promote Armenia's image of a competitive investment destination.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>					COVID-19 caused significant damage to such events and campaigns.
5.	Research and analysis of foreign investments, regular monitoring of international information and analytical resources, drafting summaries on the basis of those.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>					The center's research function is partially implemented and needs strengthening.
INVESTMENT FACILITATION										

Function according to the charter

FUNCTION		COMPLIANCE				NOTES
		FULLY COMPLIES	PARTIALLY COMPLIES	MOSTLY COMPLIES	MOSTLY DOES NOT COMPLY	
1.	Provide support to foreign and local investors on “one window” basis for the implementation of investment programs and initiatives in the Republic of Armenia.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	According to the Prime Minister’s circular of 2021, Enterprise Armenia is the primary link for investors.
2.	Support foreign investors at the pre-launch phase, providing information and auxiliary services from the launch phase.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3.	Marketing, communication support, and advocacy services (investment aftercare) to support business growth of foreign investors in Armenia.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enterprise Armenia initiated a large survey to prepare an inventory of the needs and problems of foreign investors in Armenia in 2021.
4.	Promote close cooperation between the public administration agencies and private sector companies to ensure provision of efficient services to investors, signing of memorandum of understandings.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5.	Membership and participation in certain sectoral councils and committees in order to advance the foundation’s goals.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	For prompt resolution of problems related to investment facilitation, it is important not only to be represented on various public-private platforms, but also conduct effective operations within those platforms.
6.	Transfer of information collected on the business and investment environment to relevant departments within the government in order to support business environment reform processes in Armenia.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	There is no institutional mechanism for information exchange.



FUNCTION	FULLY COMPLIES		MOSTLY COMPLIES	MOSTLY DOES NOT COMPLY	DOES NOT COMPLY AT ALL	NOTES
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## MINISTRY OF HEALTH

### INVESTMENT PROMOTION

Function according to the charter

1.	Identification of potential investors based on investment proposals.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Implements the servicing of international and donor agreements. Work with private, especially foreign, investors has been on ad-hoc basis.
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Functions not directly included in the charter

2.	Preparation of presentations for investment proposals and programs.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Certain presentational materials with investment proposals are developed for presentation to international and donor organizations.
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### INVESTMENT FACILITATION

Functions according to the charter

1.	Establish business relations with potential investors.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Implements servicing of international and donor agreements. Work with private, especially foreign, investors has been on an ad-hoc basis.
----	--	--------------------------	--------------------------	-------------------------------------	--------------------------	---

Functions not directly included in the charter

2.	Involvement in investment policy advocacy.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Normally such discussions are held when there is need.
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### INVESTMENT POLICY DEVELOPMENT

FUNCTION	FULLY COMPLIES		MOSTLY COMPLIES	MOSTLY DOES NOT COMPLY	DOES NOT COMPLY AT ALL	NOTES
I. Monitoring of investment programs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>		There is no regulated internal procedure for monitoring investment programs in this sector; there are no databases and benchmarked indicators for private investments.

## MINISTRY OF HIGH-TECH INDUSTRY

### INVESTMENT PROMOTION

Functions not directly included in the charter

I. Armenia is presented as a country with great IT potential at various international forums and conferences.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		The Ministry contributes to the positive image of the country through its operations (although not coordinated from the point of view of investment image formation).
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### INVESTMENT FACILITATION

Functions not directly included in the charter

2. Regular discussions with the private sector - raising issues, including investment barriers, resolving them within its competences or assigning to relevant bodies.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		The Ministry, within the framework of its general competencies, partially performs a policy advocacy function, which may also be related to investments.
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## MINISTRY OF REGIONAL ADMINISTRATION AND INFRASTRUCTURE

### INVESTMENT PROMOTION

FUNCTION		FULLY COMPLIES		MOSTLY COMPLIES		MOSTLY DOES NOT COMPLY		DOES NOT COMPLY AT ALL		NOTES
Functions according to the charter										
1.	Coordination of development of energy-sector program implementation concepts (feasibility reports, feasibility studies, etc.).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	There is no shortage of investors in this sector; the best motivation here would be the correct energy sector development policy.				
2.	Works with investment funds, foundations, international financial institutions on programs for economic and social development of communities.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	A website was also created, <a href="https://www.regions4growth.am/">https://www.regions4growth.am/</a> , where one can see the list of programs implemented in various regions of Armenia with the financing or co-financing of international organizations. The purpose of this website is to better present the resources and potential in the regions, which can be used as a basis for targeted competitive activities and to create an opportunity for businessmen to create, restart, or expand their businesses by attracting financing and being able to learn about available government support tools.  Regular meetings with potential investors have been organized, including abroad, as well as receptions for various local and foreign investors who wanted to present their business ideas and learn about specific sector regulations.				
INVESTMENT FACILITATION										
1.	The functions reserved by a concession agreement on “the transfer of the Armenian railway system to the South Caucasus CJSC established for that purpose by the Russian Railways OJSC” signed on February 13, 2008 between “South Caucasus Railway” CJSC and “Russian Railways” OJSC – and nine other powers defined in the related charter.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Investments in these sectors have strategic importance and are implemented according to a PPP framework.				

FUNCTION	FULLY COMPLIES		MOSTLY COMPLIES	MOSTLY DOES NOT COMPLY	DOES NOT COMPLY AT ALL	NOTES
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2	Coordination of activities with international donor organizations in energy sector investment project preparation, negotiations, agreement drafting and signing, and discussions.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Financing of investments in this sector is often also done by international organizations.
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## MINISTRY OF ECONOMY

### INVESTMENT PROMOTION

Functions according to the charter

1.	Carries out relevant studies and analysis to promote investments in the regions, makes and presents proposals.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The goal is not clearly defined and is not systematic.
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### INVESTMENT FACILITATION

Functions according to the charter

1.	Organizes investment forums, conferences, and consultations.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Implemented on an ad-hoc basis.
2.	Classifies, provides analysis, feedback on questions and problems raised by investors, develops proposals and presents to relevant agencies, organizes discussions with investors around those issues.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Classification of raised problems and questions strains the department's work, especially taking into account that Enterprise Armenia is the main link for investor issues.

FUNCTION		FULLY COMPLIES		MOSTLY COMPLIES	MOSTLY DOES NOT COMPLY	DOES NOT COMPLY AT ALL	NOTES
3.	Provides and coordinates the investment-related hotline for businesses and investors.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		This puts too much strain on the department's work and, in fact, the department takes on the role of the primary link.
INVESTMENT POLICY DEVELOPMENT							
Functions according to the charter							
1.	Develops and monitors policies to improve the business and investment environment.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		There is no regulated internal procedure for monitoring and no set indicators.
2.	Develops investment attraction and investment policies and conducts mid-term review.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		There is no investment attraction strategy.
3.	Undertakes analysis to ensure investors and investment protection, makes recommendations to relevant agencies.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
4.	Undertakes activities to remove regulatory restrictions to investments.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
5.	Engages in the development of international bilateral investment agreements.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		The department's capacities are limited.
6.	Develops and implements measures to improve the investment environment.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>		It is not clear what other measures are implemented in addition to the aforementioned ones.

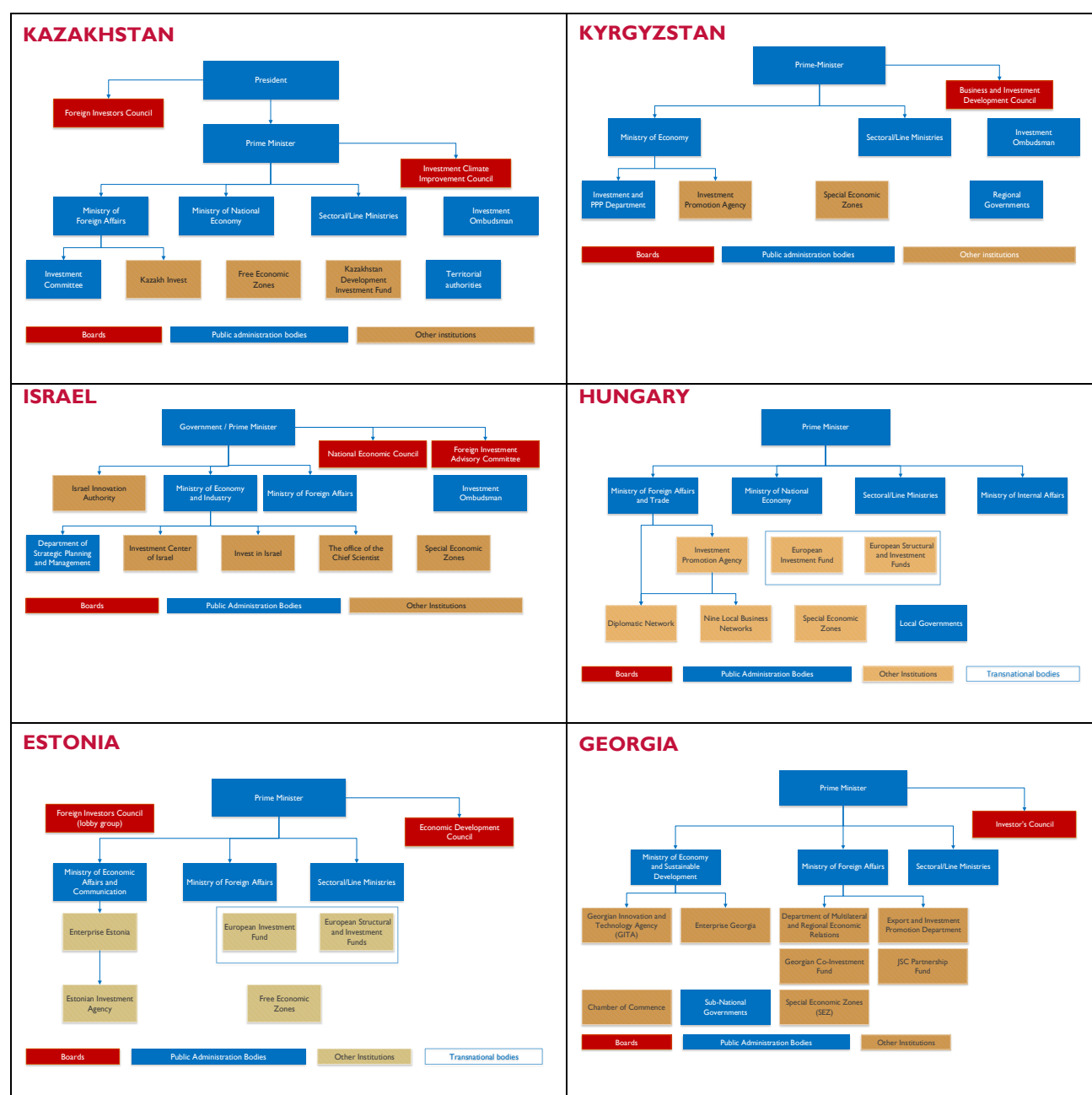
FUNCTION		FULLY COMPLIES		MOSTLY COMPLIES	MOSTLY DOES NOT COMPLY	DOES NOT COMPLY AT ALL	NOTES
7.	Analyzes investment policies, measures, and approaches used to attract investments in developed and developing countries, and on the basis of the analysis, develops relevant recommendations.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
8.	Makes recommendations for eliminating barriers to business and investment climate improvement.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
9.	Makes recommendations and takes steps to improve or maintain Armenia's position at investment climate classifications, including OECD FDI.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
10.	Develops PPP policy, procedures, PPP guidelines and methodologies, and other functions set by the Law on PPP.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		PPP policy and regulations are almost fully developed.
<b>ARMENIAN NATIONAL INTERESTS FUND</b>							
INVESTMENT PROMOTION							
Function according to the charter							
1.	Development and acceleration of investment projects and business ideas.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		ANIF already has had the successful experience of attracting two well-known investors to Armenia.
2.	Participation in investment projects and business initiatives as an investor and (or) consultant.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

FUNCTION	FULLY COMPLIES		MOSTLY COMPLIES	MOSTLY DOES NOT COMPLY	DOES NOT COMPLY AT ALL	NOTES
3. Provision of assistance to the GOAM in the processes related to the management of large investment programs.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
4. Participation in the development and management of PPP projects.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
5. Provision of assistance to the GOAM in reforms related to companies with state participation and participation in the implementation of these programs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>		
INVESTMENT POLICY DEVELOPMENT						
Function according to the charter						
1. Provision for assistance to the government of the Republic of Armenia regarding reforms aimed at the modification of investment and the business environment by informing the GOAM about problems encountered in the course of the company's activities, as well as submitting proposals.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
OTHERS						
Function according to the charter						

FUNCTION	FULLY COMPLIES		MOSTLY COMPLIES	MOSTLY DOES NOT COMPLY	DOES NOT COMPLY AT ALL	NOTES
I. Promotes the development and implementation of programs aimed at the exports of local companies, advanced technology and export-oriented clusters and, in general, the development of programs aimed at the development of the export potential of the country.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		



## ANNEX 4.2. INSTITUTIONAL SETUPS FOR INVESTMENT POLICY DEVELOPMENT, INVESTMENT PROMOTION AND FACILITATION IN SELECTED COUNTRIES

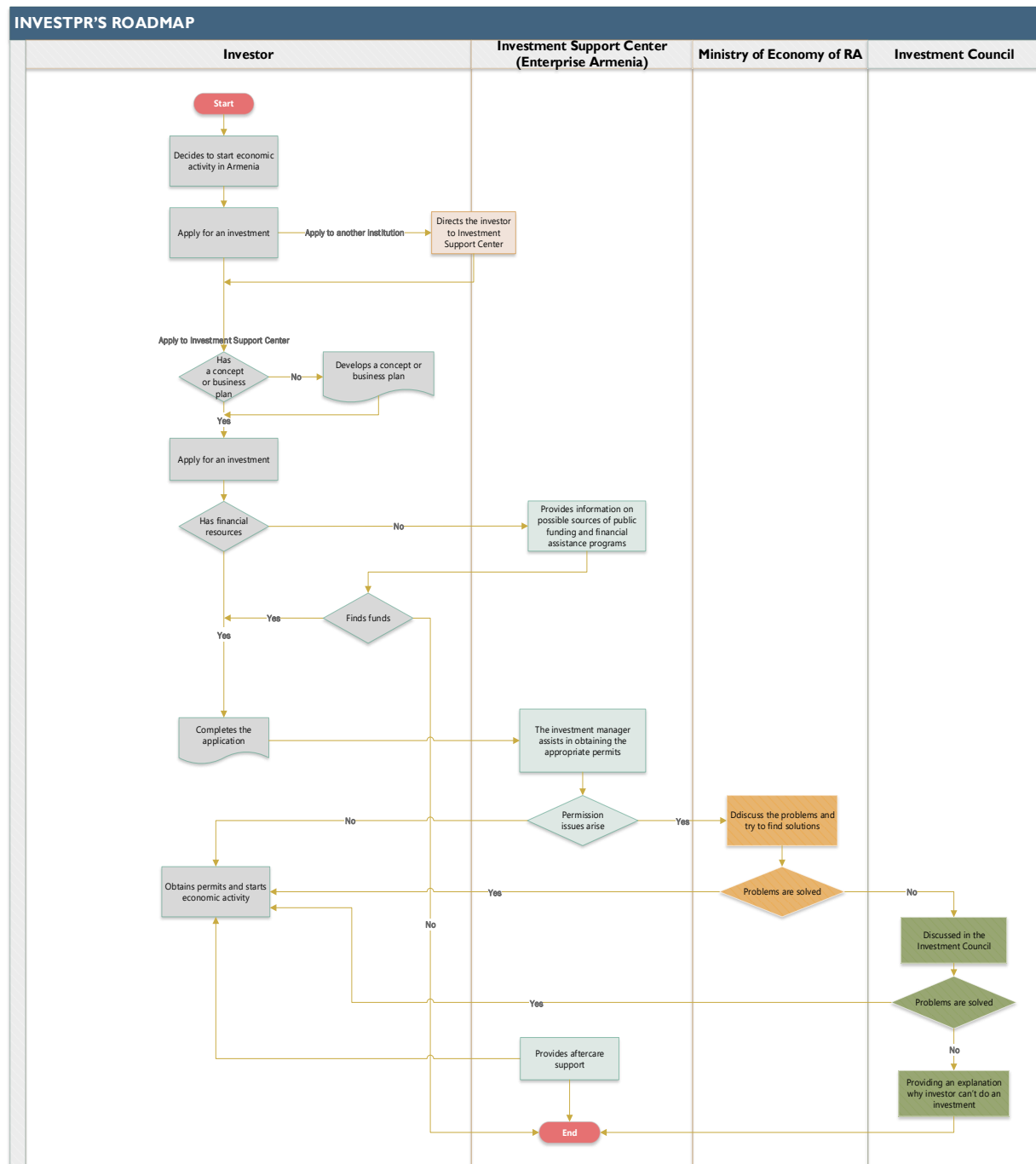


## ANNEX 4.3. OECD COUNTRIES AND THE NATIONAL IPA OF ARMENIA: ACTIVITIES BY KEY FUNCTIONS

	ACTION	MORE THAN 50 PERCENT OF INVESTMENT PROMOTION AGENCIES IN OECD COUNTRIES	ENTERPRISE ARMENIA
Image building	Website launch	+	+
	Website feedback service	+	+
	Marketing materials (booklets, investment guidelines)	+	+
	Participation in local and foreign events	+	+
	Organizing and receiving high-level general missions	+	+
	Publications in international media	+	+
	Publications in local media	+	+
Investment generation	Primary data analysis	+	-
	Market research	+	+
	Responding to enquiries	+	+
	Organizing campaigns	+	+
	Organizing campaigns for specific sectors or investor groups, locally and abroad.	+	-
	Individual meetings with investors.	+	+
	Participation in sectoral events, locally and abroad.	+	+
Investment promotion and maintenance	Visits to investment project implementation sites.	+	+

	Organizing and participating in business meetings (for instance with government officials and/or potential suppliers).	+	+
	Providing information about local suppliers/customers.	+	+
	Providing support with administrative procedures.	+	+
	Identifying structural issues related to investors.	+	+
	Airport pickup	+	-
	Assistance with raising funds.	+	-
	Database of local suppliers.	+	+
	Connecting investors and local enterprises.	+	+
Policy Advocacy	Monitoring of existing rankings.	+	+
	Meetings with the representatives of the private sector or business associations.	+	+
	Meetings with the prime minister/president or other government officials/organizations	+	+
	Involvement in intergovernmental working groups/councils on investment environment improvement matters.	+	+
	Participation in regular meetings with the representatives of the private sector.	+	+
	Preparing reports.	+	-
	Consultations with export agencies, embassies, and consulates.	+	+
	Public awareness raising activities.	+	+
	Surveys among foreign investors.	+	+

## ANNEX 4.4. AN INVESTOR'S ROADMAP



## ANNEX 4.5. INTERNATIONAL EXPERIENCE IN INVESTMENT CONSULTATIVE STRUCTURES BY COUNTRY

COUNTRY	AGENCY	MANDATE
Georgia	Georgia has an Investment Council, an independent advisory body composed of representatives of the government, the private sector, and international organizations.	The Investment Council is designed to promote a constructive dialogue, exchange of ideas between the government and the private sector to improve the investment climate.
Kazakhstan	<p>There are two advisory bodies in this country:</p> <ol style="list-style-type: none"> <li>1. Foreign Investors Council under the President of the country—a public-private dialogue platform. The members of the council are the prime minister, head of the national bank, Deputy Prime Minister, minister of foreign affairs, head of the intergovernmental committee on foreign investor complaints, head of the investment committee of the MOFA, representatives of the private sector and international donor organizations. The governing structure of the Council is the investment committee of the MOFA and a permanent secretariat.</li> <li>2. Investment Environment Improvement Council under the country's Prime Minister and a PPD platform. The head of the Council is the prime minister, the deputy head is the Minister of national economy, and the secretary is the first Deputy Minister of national economy. Other members are the ministers of industry and infrastructure, energy, foreign affairs, finance, trade and integration, justice, environmental protection and natural resources, agriculture, deputy prosecutor general, heads of taxpayers' association and other associations, private companies, international financial institutions.</li> </ol>	<ol style="list-style-type: none"> <li>1. Foreign Investors Council puts forward recommendations to the President on the following issues: <ol style="list-style-type: none"> <li>a. Main directions of investment policy.</li> <li>b. Improvement of the investment climate/identification of problematic issues faced by international companies already investing in the country</li> <li>c. Creating an investment-enabling environment for economic diversification, industrialization, SME development and improved regulations.</li> <li>d. Integration of the country's economic activities into the global economy.</li> <li>e. On the strategy for generating additional foreign investments into the economy.</li> </ol> </li> <li>2. The goal of the Investment Environment Improvement Council is the implementation of a unified investment policy, which is in line with the country's economic development priorities and domestic and foreign investment generation and efficient use in particular. <ol style="list-style-type: none"> <li>a. Determining a common strategy for the development of investment activities: the experience of OECD countries in the field of investment policy and the country's development priorities.</li> <li>b. Development of proposals for creating a favorable investment environment, including protection of the rights and interests of foreign investors and improvements in the field of investment policy, taxes and customs regulations.</li> <li>c. Analysis of solutions to problems hindering investments in the manufacturing sector.</li> </ol> </li> </ol>
Kyrgyzstan	The government structure has a business and investment development council, which has an advisory status. The council is headed by the Prime Minister and members are the first Deputy Prime Minister, head of the government agency responsible for economic development, two representatives from an international development partner organization, and a business association.	The council is an effective PPD platform and is responsible for development and implementation of programs to improve the business and investment environment, and speed up economic and social development of the country.
Estonia	<p>There are two agencies in this country:</p> <ol style="list-style-type: none"> <li>1. Foreign Investors Council was created in 2008 as a lobby group and operates through contacts with the Estonian government and public administration agencies. Among its primary members are the chambers of commerce of Austria, UK, Denmark, Finland, Germany-Baltics, The</li> </ol>	<ol style="list-style-type: none"> <li>1. The main tasks and priorities of the Foreign Investors Council reflect the discussions of the interests and concerns of foreign investors in Estonia.</li> <li>2. The goal of the government's Committee on Economic Development is to promote the economic development of Estonia and improve the competitiveness of the country.</li> </ol>

Netherlands, Norway, Sweden and France as well as business clubs and marketing offices.

2. Committee on Economic Development (established by a government decree on April 13, 2017) is chaired by the prime minister. Its members are the ministers of foreign trade and information technologies, education and research, justice, economy and infrastructure, finance, social issues, and foreign affairs. Other ministers participate in the Committee's sessions if the discussion topic requires their presence. The Committee's work is organized by the Government's office.

USA

There are two agencies in this country:

1. The US Investment Advisory Council (IAC) members are appointed by the Department of Commerce. Members are business or economic development leaders representing various industries, companies, associations, regional, state and local economic development organizations (up to 40 members for a period of two years).

2. The Federal Interagency Investment Working Group (IIWG) of more than 20 federal agencies and departments. The Working Group members are the Department of State, Department of Treasury, Department of Defense, Department of Justice, Department of the Interior, Department of Agriculture, Department of Commerce, Department of Labor, Department of Veterans Affairs, Department of Health and Human Services, Department of Housing and Urban Development, Department of Transportation, Department of Energy, Department of Education, Department of Homeland Security, Environmental Protection Agency, US Small Business Administration, Export-Import Bank of the US, US Trade Representative, the Domestic Policy Council, the National Economic Council, the National Security Staff, the Office of Management and Budget, and the Council of Economic Advisers, as well as such additional executive departments, agencies, and offices as the Secretary of Commerce may designate. The Working Group is managed by the Executive Director of SelectUSA in coordination with the Director of the National Economic Council.

1. The Investment Advisory Council is responsible for advising the Secretary of Commerce on U.S. government policies and programs that affect FDI; identifying and recommending programs and policies to help the United States attract and retain FDI; and recommending ways to support the United States remaining the world's preeminent destination for FDI.

2. The goal of the Federal Interagency Investment Working Group is to help coordinate activities across the many agencies that promote business investment and respond to specific issues that affect investment decisions. The IIWG is focused on continually improving federal investment programs and resources, bringing to bear the expertise and tools each agency has to offer.

Israel

1. A National Economic Council in the structure of the prime minister operates in Israel with mostly economists as members.

2. In addition, Israel founded in 2019 (operating since 2020) a Foreign Investment Advisory Committee headed by the Ministry of Finance with members from the National Security Council and the Ministry of Defense and observers from the Ministry of Economy and Industry, Ministry of Foreign Affairs, and National Economic Council.

1. The National Economic Council serves as the prime minister's coordinating agency for issues that require comprehensive and methodological economic thinking, supports decision making processes, and is involved in the prime minister's, and the government's, projects. The Council was created in 2006 in response to the need for a professional macroeconomic body with high analytical capacity.

2. The Council will assist the regulators to take into account/assess national security aspects of foreign investments in the finance, communication, infrastructure, transport, and energy sectors.

## ANNEX 5.1. ENTERPRISE ARMENIA WEBSITE ASSESSMENT

### WEBSITE ASSESSMENT: ARMENIA VERSUS SIX PEER COMPETITORS

COUNTRY	ARMENIA	GEORGIA	MOLDOVA	ESTONIA	NORTH MACEDONIA	IRELAND	ISRAEL
CRITERIA							
Access and ease of use	2	3	3	4	3	5	5
Information quality	3	3	3	5	3	5	4
Visual (pictures, graphics, videos, etc.)	2	3	3	4	3	4	4
Comparative data used	2	1	1	3	1	5	5
USP for Investors	2	3	3	4	3	4	4
People advantages	4	2	3	5	2	5	5
Information on investors	1	4	3	4	3	5	3
Investor testimonials	1	4	3	4	4	5	3
Sector profiles	3	3	4	3	1	4	5
Location information	3	2	3	4	3	5	3
Incentives described	3	3	2	2	4	4	3
Market access	2	3	3	4	4	4	4
Supplier services/data	1	3	2	2	3	4	2
IPA services description	3	3	3	5	3	5	5
<b>Totals</b>	32	38	39	53	40	64	55
<b>RANK</b>	7	6	5	3	4	1	2

[Enterprise Armenia](#)

[Invest North Macedonia](#)

[Invest in Georgia](#)

[IDA Ireland](#)

[Invest in Moldova](#)

[Invest in Israel](#)

[Invest in Estonia](#)

**RATING:** 1 = basic, 2 = fair, 3 = acceptable, 4 = good, 5 = excellent

**NOTES:** Peer countries selected here are all countries of comparable size or less than 10 million people, and (a) neighboring countries, (b) transition or recent transition countries, and (c) developed countries.

The three higher-ranked IPAs in the above table have much larger organizations and budgets than others. They have been longer in existence and have benefited from regular upgrades of their promotion methods and tools. The rankings here should be seen as indicative rather than definitive. They provide a guide for future benchmarking and upgrading of Enterprise Armenia’s website. Enterprise Armenia could usefully review other country IPAs that have been selected for awards by fDi Intelligence or referred to in reports on investment promotion (WB, OECD, etc.).

## SUMMARY ASSESSMENT OF ENTERPRISE ARMENIA WEBSITE AND BROCHURES

### SUMMARY ASSESSMENT

#### 1. BASIC FACTS: LOCATION AND ACCESS TO COUNTRY OR REGION AND BASIC FACTS ON SECTOR

- Better upfront description of country location (map) on website and ‘how to get there’
- Same applies to regions, only very basic facts given. Best locations for investors?
- Sector brochures are good first editions. More facts/pictures/quotes about companies needed

#### 2. VISION + USP FOR INVESTORS: NATIONAL/REGIONAL/SECTOR

- USP for investors is critical for competing at national, regional, and sector levels
- ‘Armenia—your next Business Destination’ is very weak and vague. Business? Investment?
- USP needs to be aimed at **investor needs** and not just describe Enterprise Armenia services

#### 3. EASE OF ACCESS AND USER FRIENDLY (TO WEBSITE, LANGUAGES, DOWNLOADS, ETC.)

- Different organization names, URLs, contact points are confusing and unprofessional
- “Enterprise Armenia, Investment Support Center, Enterprise Armenia Fund, One Stop Shop”
- English good, other languages? Also, language versions for brochures and videos?

#### 4. INFORMATION QUALITY: UP TO DATE, WELL PRESENTED, RELEVANT FACTS, LINKS TO SOURCES

- No clear information strategy evident; mostly basic descriptions of what Enterprise Armenia offers
- All publications should be dated; some out-of-date material; basic description of Enterprise Armenia services
- Competitive information for target sectors critical—‘Advantages for investors?’

#### 5. VISUAL IMPACT: IMAGES, MAPS, PICTURES, GRAPHICS, VIDEO LINKS, TOOLS TO COMPARE

- Extraordinary lack of pictures of people (Armenia’s main advantage) on website/brochures
- Where is Armenia? At crossroads of Europe and Asia, access to big markets, better graphic
- Graphics mostly bland and not attractive; some video links but videos dull and basic

#### 6. MARKET ACCESS: INFORMATION: TRADE AGREEMENTS/TRANSPORT/CUSTOMS/EXPORT

- Ease of access and delivery times and costs to main EU and EAEU markets
- Modes of transport to export markets with short facts on how other companies do it
- Regulatory procedures on quality standards, customs checks

#### 7. COMPARATIVE DATA: COMPETITORS, RANKINGS, PEOPLE, TALENT, COSTS, ADVANTAGES

- How Armenia compares with competitor countries—more on international rankings
- People and talent, STEM, R&D, links to universities—Armenia’s biggest advantages?
- Comparative costs: labor, utilities (power, water, transport)



8. PEOPLE ADVANTAGES: AVAILABILITY, SKILLS, PRODUCTIVITY, COSTS

- Availability nationally and by main region: case example, 100–500 employees, where?
  - Sectoral skills (toolmakers, ICT experts, etc.) and specialized training centers and supports
  - Diaspora and international market success of Armenian companies
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9. TESTIMONIALS: INVESTOR EXPERIENCES, PROFILES, AND STATEMENTS

- Short quotations on their experience in Armenia and company pictures (for example, Synopsis)
  - Short profiles (1-2 pages), 'Profiles of Success,' on 6-10 companies in target sectors
  - YouTube interviews with major companies on advantages for them in Armenia
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10. LOCATIONS FOR INVESTORS: FACTS ON SITES, FACTORIES, OFFICES, INFRASTRUCTURE

- Facts on availability of sites, factories, and offices for immediate use or with modifications
  - Location descriptions and infrastructure; for example, road/rail access, services on site, etc.
  - Facts on current ownership and costs, including general building costs.
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RECOMMENDATION: The existing first editions of Enterprise Armenia's website and information should be upgraded on priority. Enterprise Armenia's information (website, brochures, videos, social media) are the organization's 'shop window' and a vital source of information for investors and their advisors. This summary assessment provides guidance. On an ongoing basis Enterprise Armenia should, ideally, compare and benchmark its website and brochures with competitor countries.

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