



Armenia: Investment Promotion

Project Name	Investment Promotion
Project Number	47265-001
Country	Armenia
Project Status	Active
Project Type / Modality of Assistance	Technical Assistance
Source of Funding / Amount	TA 8559-ARM: Investment Promotion Technical Assistance Special Fund US\$ 750,000.00
Strategic Agendas	Inclusive economic growth
Drivers of Change	Governance and capacity development Private sector development
Sector / Subsector	Industry and trade - Industry and trade sector development Public sector management - Economic affairs management
Gender Equity and Mainstreaming	
Description	<p>The TA will finance upgrading of investment promotion materials, preparation of sound investment proposals, and targeted marketing and matchmaking activities. An international investment forum will act as catalyst and end point for these investment promotion activities. The forum will be a private-sector-oriented event, and will mainly focus on strategic industrial sectors in Armenia that could benefit from foreign investment to expand their export potential. The forum is expected to take place in Yerevan in June 2015. The main target audience for the forum will be multinational manufacturing companies that are looking to invest in Armenia's strategic sectors or to expand their activities in the region. The objective is to create opportunities for networking and support matchmaking between local and foreign firms by increasing foreign investors' familiarity with the current circumstances in Armenia, its business climate, and opportunities in strategic sectors. The TA will support marketing activities and international road shows. The forum will include focused discussions on the opportunities and export potential of selected strategic sectors, as well as the scope of these sectors to participate in global value chains. The forum will stress the opportunity to enter the CIS and European Union markets from Armenia by benefiting from lower production costs and a well-educated workforce. International experts (supported by resource persons, if needed) in these strategic sectors will be invited to support sector discussions; undertake analysis of sector strengths, weaknesses, opportunities, and threats (SWOT); provide sector-specific advice; and strengthen investment project proposals and their presentations. The market information collected throughout the TA will be compiled and shared with all firms operating in strategic sectors in Armenia.</p> <p>The TA will help identify policy actions needed to address major constraints to private investment in strategic sectors, as well as the export potential of strategic products in which Armenia can have a comparative advantage. This will help the government fine-tune its economic policy for each strategic sector. Capacity development of the IPA will take place during the preparation of the forum and during the follow-up activities in order to improve investor support and engagement.</p>

Project Rationale and Linkage to Country/Regional Strategy

a. Key Development issues to be addressed:
 After recording 12.2% average annual growth rates in 2003-2008, Armenian gross domestic product (GDP) contracted by 14.1% in 2009, largely due to a sudden stop in capital inflows that disrupted the real estate and construction sectors. Gross fixed capital formation declined from 39.8% of GDP in 2008 to 23.7% of GDP in 2012. GDP per capita has been recovering since 2010 and was \$3,021 in 2012 but is still below 2008 levels (\$3,606). Real GDP growth is expected to average 4.5% in 2013-2014. The national poverty rate stood at 35% in 2011 and is yet to recover from the 2009 economic crisis (the rate was 27.6% in 2008). Competition and productivity are constrained in many sectors, particularly in nontradable goods and services.
 Armenia continues to be highly dependent on external energy and financial resources. In 2013, the current account deficit is expected to slightly decline from its 2012 level of 11.2% of GDP. The large trade imbalance has been covered by growing remittances, official grants and loans, and market-based financing. Foreign direct investment (FDI) has been declining since the global financial crisis at only 4.8% of GDP in 2012 compared to 7.9% in 2008 largely due to a reduction of FDI in the construction sector. Overall, Armenia's country risk is high.
 Armenia's external trade can be volatile, because most of its exports are concentrated in a small number of product categories and are produced by a limited number of enterprises. Armenian firms export only 80 products with comparative advantage. The lack of strong institutions promoting nontraditional exports (heterogeneous goods to new markets) results in a heavy concentration of Armenia's non-mineral exports to only a few geographical destinations. The Russian Federation is the biggest export market for non-mineral goods and is the source of 80-90% of remittances.
 Agro-processing products, such as beverages, spirits, and vinegar have significant backward linkages to agriculture but make up only about 12% of total merchandise trade. Other products that have demonstrated export potential include wine, fish and crayfish, cheeses, tomato paste, fresh and dried fruits, and vegetables. Many of these products are exported to members of the Commonwealth of Independent States (CIS), where historical ties and migration flows have built consumer awareness and distribution channels. Armenian products, however, remain largely unknown to the rest of the world. Their quality standards, for example in food safety, also require improvement to meet international standards. The country needs to diversify economic opportunities and productive capabilities to ensure sustainable economic development and poverty reduction. Success in this process will be determined by whether manufacturing firms can overcome the scale-related cost disadvantage of a small domestic market, and whether a more diversified and risk-taking manufacturing base targeted to higher-value markets can be established. Attracting committed and specialized foreign investors particularly from the large Armenian diaspora and global multinational corporations is critical for this endeavor, as they bring frontier knowledge and opportunities to integrate Armenian products into global value chains. The Armenian Development Agency (ADA) the official investment promotion agency (IPA) has been underperforming in attracting FDI compared with comparable countries.
 b. Link to Country Partnership Strategy/Regional Cooperation Strategy:
 The government's economic strategy foresees acceleration of structural transformation in 11 export-oriented industrial sectors to increase export diversification in products and destinations. Strategies and action plans for most of these strategic sectors have already been approved, and the remaining sector action plans are being finalized. Successful implementation of the action plans will help create jobs. The government is also developing an FDI strategy to attract committed foreign investors that are specialized in the strategic sectors. Free economic zones are being established to make investing in Armenia more attractive. The government will continue to pursue an economic reform agenda to simplify regulation and facilitate investments. Initiatives such as the elimination in 2011 of a large number of unnecessary regulations and the implementation of a program of tax and customs administration reforms planned for 2013-2015 will help improve the country's attractiveness to investors.

Impact	Increased net FDI inflows
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Project Outcome

Description of Outcome	Improved capacity to bring committed investors to Armenia
Progress Toward Outcome	The Investment Forum is scheduled on October 10-11, 2016.

Implementation Progress

Description of Project Outputs	1. Investment proposals and promotion materials upgraded 2. International investment forum successfully implemented Recommendations identified for improving the government's economic policy in strategic sectors
Status of Implementation Progress (Outputs, Activities, and Issues)	Ongoing Ongoing Ongoing Ongoing Ongoing
Geographical Location	Yerevan

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design	The TA was discussed with the President of Armenia, the Prime Minister, the Ministry of Economy, the Armenia Development Agency and other key stakeholders. International financial institutions and other investment intermediaries have been consulted. Potential associate sponsors have been identified.
During Project Implementation	Participants from the private sector and international organizations have been actively involved in the TA activities.

Business Opportunities

Consulting Services	ADB has engaged a consulting firm for technical support.
Procurement	Any procurement will be done in accordance with ADB's Procurement Guidelines (2013, as amended from time to time).

Responsible Staff

Responsible ADB Officer	Ruben Barreto
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, CWRD
Executing Agencies	<i>Ministry of Economy Mr Vahram Avanesyan, Minister of Economy and ADB Governor secretariat@mineconomy.am 5 M. Mkrtchian Street, Yerevan 375010 Armenia</i>

Timetable

Concept Clearance	20 Sep 2013
Fact Finding	07 Oct 2013 to 14 Oct 2013
MRM	-
Approval	13 Dec 2013
Last Review Mission	-
Last PDS Update	23 Sep 2016

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Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
13 Dec 2013	08 Jan 2014	08 Jan 2014	31 Dec 2015	31 Dec 2016	-

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
750,000.00	0.00	250,000.00	0.00	0.00	0.00	1,000,000.00	13 Dec 2013	301,789.22

Project Page <https://www.adb.org/projects/47265-001/main>

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