

## Investment Policy

### Content

1. [Investment policy](#)
2. [The regulatory framework for foreign investments](#)
3. [Bilateral and multilateral investment agreements](#)
4. [Settlement of investment disputes](#)
5. [Trade regime WTO accession benefits](#)
6. [WTO accession benefits](#)
7. [Evaluation of Armenia's institutional and investment performance by international organizations](#)
8. [The state of foreign investment in Armenia](#)
9. [Improving of the investment environment](#)
10. [Institutions \(agencies\) responsible for the investment promotion](#)

### 1. Investment Policy

The Government of Armenia considers the investment policy as one of the key aspects of its economic development course. The Government highly prioritizes the attraction of private investments, including FDI, which will stimulate economic development in the industrial and other sectors of economy. As a result of successful implementation of this policy, stable economic growth is achieved for the last 10 years. The growth rate in average during 2001-2005 was 12% and it is reflected in steady growth in GDP (2001 - 9.6%, 2002- 12.9%, 2003 - 13.9%, 2004 – 10.1%, 2005 – 13.9%, 2006-13.4%, 2007 – 13.7%) and in drastic quantitative and qualitative increase in export volumes (2000-28.4%, 2001-14.1%, 2002-48.5%, 2003 - 30.5%, 2004 - 4.3%, 2005-31.5%, 2006-3.1%, 2007 – 17.5%). To sustain these trends and promote further economic development, the Government of Armenia signifies the role of private investments and has adopted a five-dimensional approach:

1. To create favorable environment for investors in all sectors of economy by ensuring stable and predictable conditions for business operations and proper legal protection of investments.
2. To mitigate the investment risk for inward and domestic investments by removing fiscal and other regulatory and administrative constraints.
3. To attract transnational corporations (TNC-s) to enhance the role of Armenia in globalizing world economy.
4. To accomplish privatization process more efficiently (case by case) by attracting successful investors.
5. To maintain high export rates for coming years, the Government of Armenia will make an effort to diversify the export structure, because the current structure is confined to some commodity groups. The way to develop and maintain high export rates is the identification and development of innovation clusters such as scientific-research and commercialization of education services by attracting export oriented investments, particularly investments by TNC-s.

Based on these approaches Armenia has declared an "Open Door" investment policy and this liberal approach was incorporated into legislation by adoption of the Law "[On Foreign Investments](#)" in 1994 and in other investment relevant provisions of economic laws. Signifying the role of the "Foreign Investment Law" in attracting foreign capital in economic development, the Government has emphasized the decisive role of FDI in accelerating the economic growth and necessity to efficiently utilize FDI benefits for

Armenian economy.

The Government approaches combined with the following institutional and economic factors makes Armenia attractive for FDI:

#### **Advantages for Investing in Armenia**

- Favorable investment legislation;
- Investment guarantees;
- Government active involvement in economic and structural reforms;
- Fast growing economy;
- Easy access to CIS and Middle East Markets;
- Well educated, skilled and easily trainable workforce;
- No restrictions on staff recruitment;
- Profit tax exemptions for companies engaged in agricultural production;
- 100% ownership permission for foreigners;
- No restrictions on remittances;
- Stable banking system and local currency;
- Competitive energy cost;
- Worldwide Diaspora
- Membership in the World Trade Organization
- liberal trade regime, no quotas and licenses on imports;
- No export duties & VAT refund on goods and services exported;
- Free conversion of foreign exchange;
- Free repatriation of profit;
- Political & economic stability

#### **Profitable Sectors for Investment**

- High-tech electronics projection
- Mining and Metallurgy
- Financial intermediation (Banking services)
- Business services
- Health and Education services
- Computer software engineering
- Food production and packaging
- Tourism
- Renewable energy
- Chemical industry
- Light industry

## **2. The Regulatory Framework for Foreign investments**

Armenia has shown sustainable growth in its main economic figures in last 10 years and, more over, the Government has a clear vision of economic development strategies and currently develops its economic strategy policy for the next decade. In this regard, Armenia has recognized the importance of protecting investments and investors and developed such a legal framework that makes Armenia attractive for foreign investments. According to the assessment by American Bar Association (Report "On Investigation of Factors Inhibiting Foreign Direct Investment in Armenia", September, 1998), the Law of the RA "On Foreign Investments" proves to be the most progressive and liberal foreign investments law in existence among other transitional economies and it:

- guarantees equal treatment of foreign and domestic investments
- considerably restricts the government's ability to confiscate the property
- requires full compensation in case of nationalization or confiscation by government
- allows foreign investments in wide sectors of economy and in various forms

- protects investments for a period of five years from adverse legislative changes (grandfather clause)
- provides access to the Armenian and international courts to resolve the commercial disputes
- allows for full repatriation of profits and property
- protects intellectual property
- provides a set of other rights and privileges that are regarded as important, if not essential, to foreign investors.

By establishing of fully foreign-owned companies, affiliates, branches, representative offices, new joint venture companies and purchasing different types of securities in Armenia, foreign investors are free to make such types of investments as real estate, securities, world currencies, including the Armenian dram, money orders or other orders for implementation of obligations, any form of intellectual property rights or any other economic activity specified by legislation or by an agreement with the Republic of Armenia.

### 3. Investment agreements

In addition to its legislation, Armenia has signed bilateral treaties on reciprocal promotion and protection of investments with 37 countries.

Favorable conditions have been created for foreign investors in the RA, in particular, the inviolability of investments, the possibility of settlement of emerged disputes in international tribunal courts and the free transfer of money have been stipulated according to the principles and norms of international law.

#### ***The List of signed bilateral treaties on Reciprocal Promotion and Protection of Investments***

N	State	Date of Signing	Date of Ratification	Date of Come into effect
1.	Argentina	16.04.1993	27.09.1993	10.10.1994
2.	Austria	17.10.2001	09.10.2002	01.02.2003
3.	USA	23.09.1992	26.09.1995	29.03.1996
4.	Bulgaria	10.04.1995	29.08.1995	27.03.1996
5.	Belgium-Luxemburg	07.06.2001	20.02.2002	19.12.2003
6.	Germany	21.12.1995	23.06.1997	04.08.2000
7.	Iran	06.05.1995	14.11.1995	26.02.1997
8.	Lebanon	01.05.1995	29.08.1995	01.10.1998
9.	Canada	08.05.1997	17.03.1999	29.03.1999
10.	Cyprus	18.01.1995	12.06.1996	03.08.1998
11.	India	23.05.2003	27.04.2004	30.05.2006
12.	Greece	25.05.1993	13.10.1993	28.04.1995
13.	Kyrgyzstan	04.07.1994	29.08.1995	26.11.1995

14.	United Kingdom	27.05.1993	13.10.1993	11.07.1996
15.	China	04.07.1992	06.10.1992	17.03.1993
16.	Romania	20.09.1994	11.10.1995	24.12.1995
17.	Vietnam	01.02.1993	28.04.1993	
18.	Georgia	04.06.1996	18.02.1997	18.01.1999
19.	Ukraine	07.10.1994	16.01.1996	07.03.1996
20.	France	04.11.1995	05.08.1996	21.06.1997
21.	Italy	23.07.1998	11.10.2000	12.12.2000
22.	Switzerland	19.11.1998	09.10.2002	04.11.2002
23.	Israel	19.01.2000	21.03.2001	25.06.2003
24.	Qatar	22.04.2002	23.10.2002	08.10.2007
25.	Tajikistan	03.04.2002	04.11.2002	18.11.2002
26.	Russian Federation	15.09.2001	02.12.2005	08.02.2006
27.	Belarus	26.05.2001	21.11.2001	10.02.2002
28.	U.A.E.	20.04.2002	04.11.2002	
29.	Uruguay	06.05.2002	25.03.2003	
30.	Finland	05.10.2004	27.02.2007	20.04.2007
31.	Turkmenistan	19.03.1996		
32.	Egypt	09.06.1996	08.12.2005	21.02.2006
33.	The Netherlands	10.06.2005	02.12.2005	01.08.2006
34.	Latvia	07.10.2005	27.02.2007	21.04.2007
35.	Sweden	08.02.2006	25.02.2008	
36.	Lithuania	25.04.2006	27.02.2007	16.03.2007
37.	Kazakhstan	06.11.2006	25.02.2008	
	<b>Total</b>	<b>37</b>	<b>36</b>	<b>31</b>

#### 4. Settlement of Investment Disputes

A serious achievement is that Economic Courts were separated and now are specializing in adjudicating on economic cases. What is more, Armenia is a signatory to the International Convention on Investment Disputes and a member of the International Center for the Settlement of Investment Disputes (ICSID). It gives additional confidence to foreign investors by providing quick, effective and qualified settlement of the investment disputes.

#### 5. Trade regime

Armenia has a liberal foreign trade regime, which consists of a simple two-band import tariff (at 0% and 10%), no taxes on exports, and no quantitative trade restrictions.

Import, export, and domestic production licenses are required only for health, security, and environmental reasons. There are no limits on hard currency imports. The new Customs Code, in force since 1 January, 2001, streamlines customs procedures and complies with WTO rules. The main features of the customs regulations are:

- All exports from Armenia are duty free.
- The import tariff rates are 0 or 10%. The 10% tariff is levied mainly on consumer and luxury goods.
- Tariffs are in ad valorem terms and levied on CIF values.
- No import customs duties are payable in the following circumstances:
  - Imported capital goods (included in the list defined by the Government of Armenia) forming a part of an investment in a business;
  - Transit goods transported across the territory of Armenia;
  - The means of transport (e.g. truck) used for regular interstate transport of freight;
  - Currency and stocks;
  - Goods temporarily imported into Armenia and temporarily exported from Armenia for the purpose of processing or reprocessing.
- All payments must be made in the currency of Armenia

Armenia has concluded Free Trade Agreements with Russia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, and Ukraine. Under the terms of these agreements, export and import of goods between Armenia and that states is free of customs duties or equivalent taxes and fees.

Excise taxes are charged at various rates on the import or production of some goods, including alcohol, tobacco and petrol.

According to analysis conducted by the Heritage Foundation/The Wall Street Journal, Armenia has the most liberal investment and trade regime among CIS countries (see below).

## **6. WTO accession benefits**

Republic of Armenia joined the WTO in February 2003. Fulfillment of its WTO obligations involves substantial trade and investment liberalization, which will have an impact on its inward and outward FDI. Accession to the WTO will make the economy of Armenia more attractive to foreign investors. Armenia has committed to liberalizing the regulatory framework for a number of industries, including business services, communications, education, financial services, health and social services, air transport services. Joining the WTO will not only attract new investors, but also enable foreign joint-venture partners to increase their equity shares in exiting affiliates. However, accession to WTO may not immediately have substantial FDI-generating effects. Nevertheless, over time, freer access to the import of production inputs could help to improve the cost-quality conditions of manufacturing, and increase the attractiveness of economy as a place for efficiency-oriented manufacturing FDI. In brief, accession to the WTO will make economy of Armenia more attractive. The services sector will replace manufacturing as the engine of growth for inward FDI. In the manufacturing sector, FDI will play a more crucial role in the process of restructuring and consolidation in response to a new and more competitive landscape. As the FDI regime will be gradually liberalized, both inflows and outflows are likely to reach new and higher levels.

## **7. Evaluation of Armenia's institutional and investment performance by international organizations**

Since 1995, the “Wall Street Journal” and Heritage foundation has been conducting an annual in-depth examination of the factors that contribute most directly to economic freedom and prosperity (the Index of Economic Freedom). Following factors are analyzed to determine the overall economic freedom: trade, fiscal burden, government intervention in the economy, monetary policy, black market, banking and finance, foreign investments, regulation, etc. (Table 1). In this survey Armenia is ranked as “mostly free”. According to the review *Government Intervention in the Economy* described as stable (moderate level). *Trade policy* evaluated as stable (very low protection): most imports are free of prohibitions, quotas or licensing. *Capital Flows and Foreign Investment* described as stable (low barriers). Armenia offers equal official treatment to foreign investors, who have the same right to establish business as citizens of Armenia in most sectors of economy. Privatization is proceeding and it is open to foreigners. According to IMF, Armenia has no restrictions or controls on the holding of foreign exchange accounts, invisible transactions, current transfers, repatriation of profits, or outward and inward direct investments by either residents or non-residents.

**Table 1: Economic Freedom Index for 2002-2008**

Overall rank for the year among 162 countries	Overall score	Business Freedom	Trade Freedom	Fiscal Freedom	Freedom from Government	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from corruption	Labor Freedom
28 <sup>th</sup> place for the year 2008	70.34	81.28	85.0	89.0	86.39	84.59	70.0	70.0	35.0	29.0	73.1
32 <sup>nd</sup> place for the year 2007	69.36	80.82	85.6	89.7	90.81	80.29	60.0	70.0	30.0	29.0	77.38
27 <sup>th</sup> place for the year 2006	75.02	77.59	80.6	90.0	90.71	80.63	90.0	90.0	50.0	31.0	69.62
42 <sup>nd</sup> place for the year 2005	70.07	55.0	80.0	89.9	88.94	81.97	70.0	90.0	50.0	30.0	64.94
44 <sup>th</sup> place for the year 2004	70.35	55.0	80.0	90.0	88.71	84.47	70.0	90.0	50.0	25.0	-
44 <sup>th</sup> place for the year 2003	67.32	55.0	81.2	88.9	84.13	81.7	70.0	70.0	50.0	25.0	-
45 <sup>th</sup> place for the year 2002	68.0	55.0	81.4	88.3	81.25	91.05	70.0	70.0	50.0	25.0	-

\* The methodology of determination of Index of Economic Freedom of Heritage Foundation was changed and, according to that, was changed classification of countries determined in previous years. In particular, were changed or were grouped 10 sub indexes, according to which a total index was estimated, and the mechanism of their valuation (5-1 is scale mechanism, 1 is the best index, was replaced on 0-100, 100 is the best index and can be used in percentage terms of freedom of adjusting branch) was replaced with aim to get more exact valuation.

database: <http://www.heritage.org/index>

### Doing Business

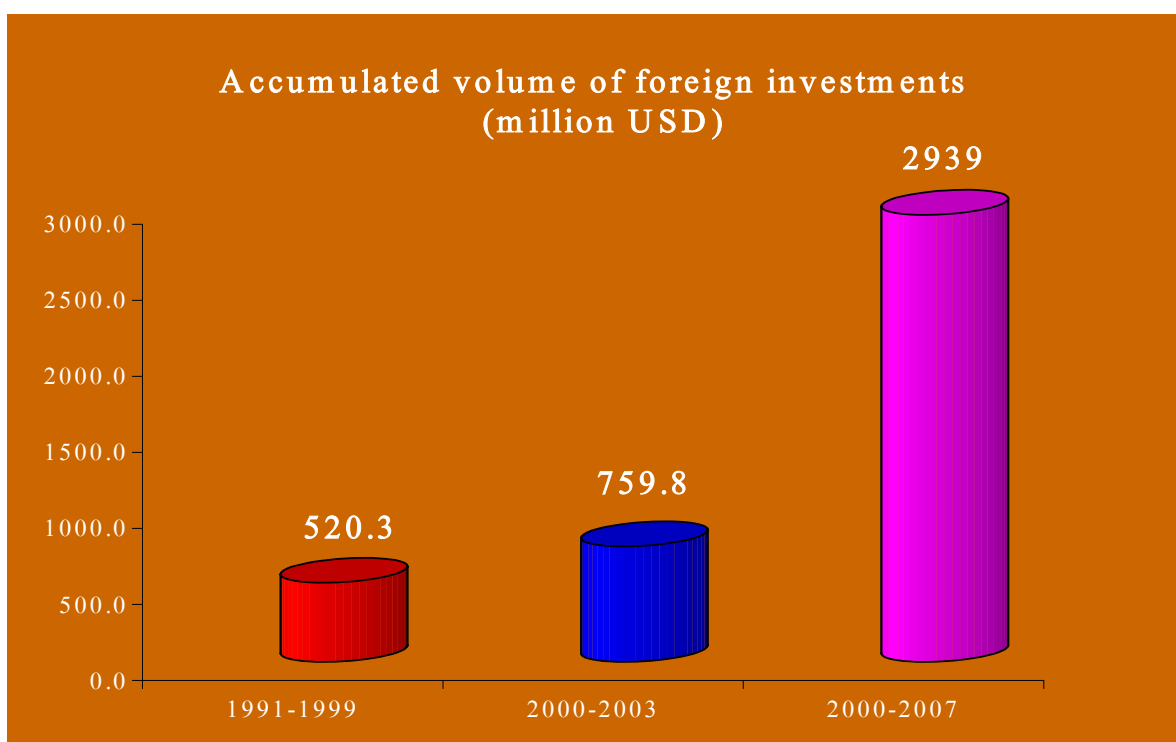
Doing business provides objective measures of business regulations and their enforcement. Periodic studying from the World Bank provides the studying of real business regulation and measures on their realization, in other words the classification expresses the facility degree of doing business in given economy. The Doing Business indicators are comparable in economies of 178 countries. They express regulating parameters of

business and can be used for the analysis of different regulations which interfere with investments, productivity and to growth. Classification of each country is determined by the results of research of the following 10 components: company establishment, construction permissions, labour regulation, property registration, getting credit, investors` protection, payment of taxes, cross border trade, enforcement of contracts, closure of company (bankruptcy).

**In 2008 Armenia's rank was 39<sup>th</sup> in a number of 178 countries in classification of Doing Business.**

### 8. The state of foreign investment in Armenia

Since 1991 the inflow of foreign investments increased and dynamics of growth is encouraging. From 2000 to 2007 in Armenia total sum of foreign investments made more than 2.9 billion US dollars.



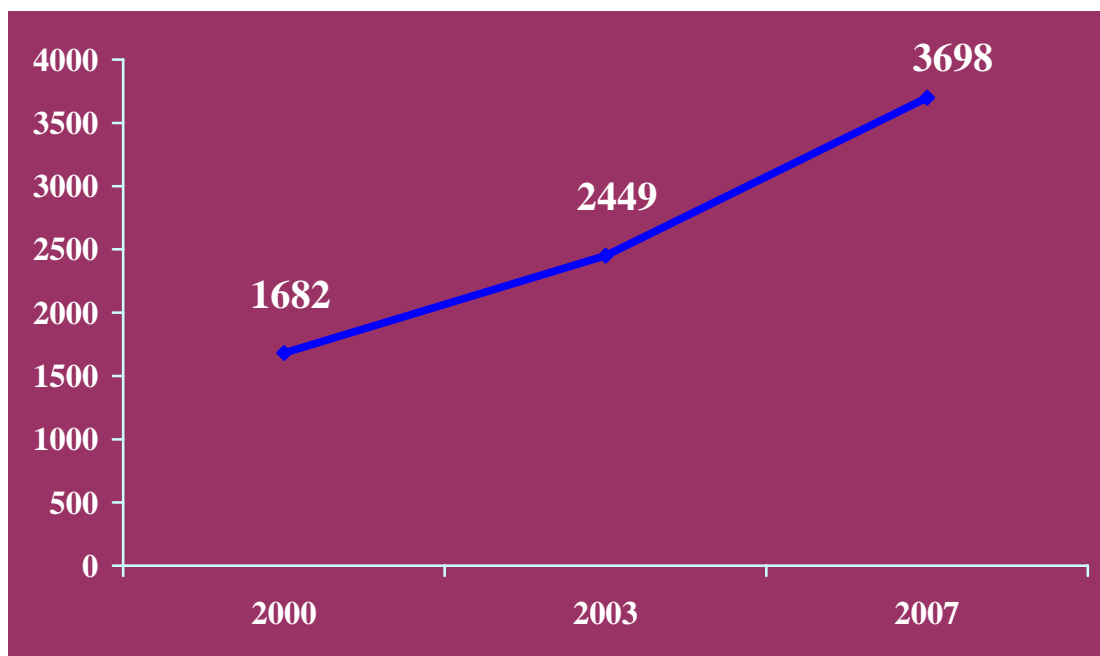
**The major foreign investment origin countries are:**

N	Country	1991- 2007 (mln USD)
1	Russia	1 387.8
2	Lebanon	270.0
3	USA	269.5
4	Germany	241.9
5	Greece	214.0
6	France	191.9
7	Canada	155.0

8	Argentina	141.4
9	United Kingdom	90.8
10	Cyprus	72.7

Since 1991 the number of companies with foreign capital participation has increased. According to official statistics 3698 companies with foreign investment have been established during 1991 to 2007 and the largest number of them registered in the last years.

### Companies with foreign capital participation established in Armenia (2000-2007)

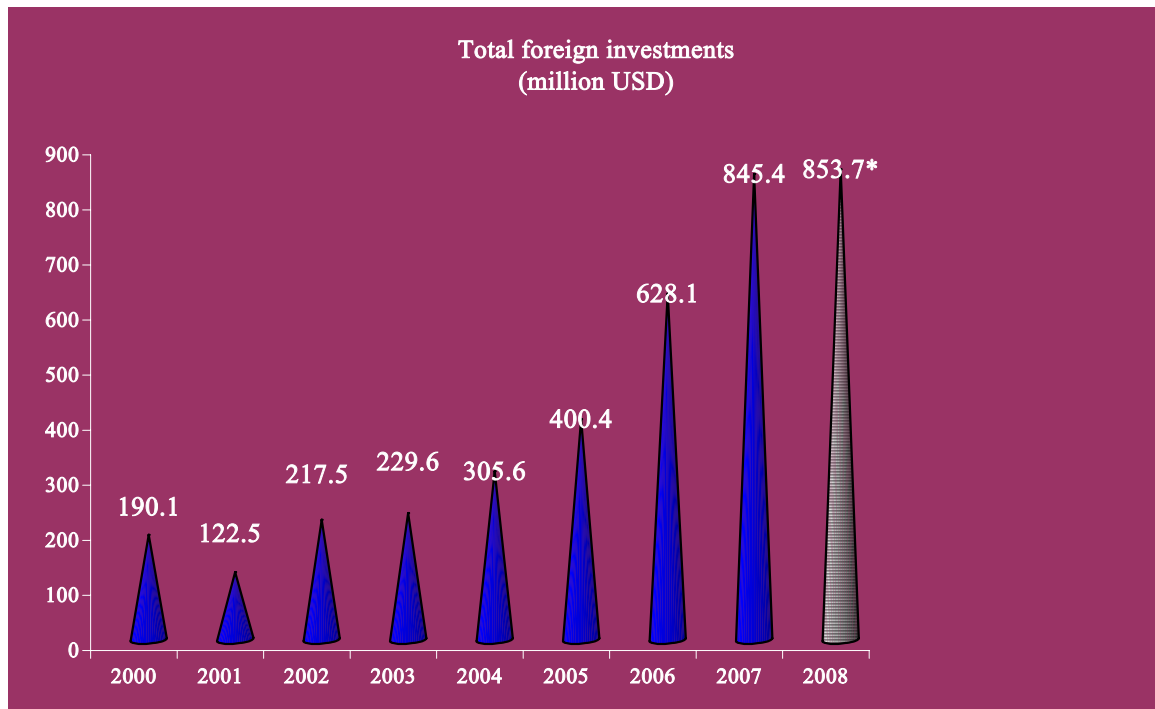


In 1991-1997, the majority of joint ventures and private foreign companies were involved primarily in import-export trade, but since 1998 there is a trend toward investing in local production and services.

From 1998 to 2007 structural considerable changes in FDI volume have been noticed. In this time period when the process of privatization basically has been finished, and FDI-s have not an essential share in the privatization process, the volume FDI-s includes the capital of the new small and average enterprises as well as re-investment.

During 2007 the volume of total foreign investment flows in **Armenia economy of real sector** made **845.4 million USD** (exclude state control and bank system incomes) exceeding value of the same period of 2006 by 34.6%, from which direct investments **582.3 million USD** (growth was 34%).





- Forecast for 2008

**Without privatization means** in real sector during 2007 the overall volume of the foreign investments increased in compare to 2006 on **33.9%**, and direct investments volume increased on **32.9%**.

During 2007 there was more diversification in a structure of investments, in particular in real sector large investments into the following spheres have been made:

- The sphere of communication – 261.2 million US dollars (competition in communication sphere promoted growth of investments in this sphere)
- El. Power, gas, hot water and steam production and distribution - 233.2 million US dollars,
- Mining industry – 86.6 million US dollars
- Metallurgical industry – 50.9 million US dollars
- Real estate transactions - 29.9 million US dollars
- Air transport activity – 24.3 million US dollars
- Foods and drinks production – 21.3 million US dollars
- Hotel services – 19.3 million US dollars
- Information technologies and electronics –13.8 million US dollars
- High Technology - 18.1 million US dollars.

The volume of the foreign investments which have been carried out in Armenia from **2000 to 2007** made **2939.1** million US dollars, from which direct investments – **1978.5** million US dollars.

From **1991 to 2007** the total foreign investments, which have been carried out in Armenia, made **3469.1** million US dollars, from which direct foreign investments **2476.5** million US dollars.

## 9. Improving investment and business climate

The Multi-donor Investment Climate Advisory Service of the World Bank Group, by the request of Ministry of Trade and Economic Development of RA, in December 2007 have prepared and presented Reform memorandum on "Doing Business in Armenia".

In the Reform memorandum the "Doing Business" suggested short-term and long-term recommendations on existing business climate obstacles.

With this regard in January 2008 at Prime Minister's office was held meeting concerning improvement of business climate, where were presented all interested bodies. Instructions to relevant bodies to make suggestions with aim of overcoming obstacles of business climate, as a result of that meeting have been given.

As realization of these instructions and with the aim of substantial improvement of the position of Armenia at the "Doing Business" ranking, is now in the process of drafting and discussions comprehensive program "On measures for improvement of business environment" (*establishment of the business support centers, which will operate by "One stop shop" principle, unification of several taxes, introduction of electronic system of acceptance of tax and financial statements and declarations, improvement of customs administration, development of corporate governance system, elimination of obligatory requirement of charter, minimal charter capital and requirements on seal permission*).

## **10. Institutions (agencies) responsible for Investment Promotion**

Following are some of the institutions which are responsible for support and implementation of the investment policy:

**The Ministry of Trade and Economic Development** (see the Charter of the Ministry at <http://www.minted.am/am/structure.html>).

**The Armenian Development Agency (ADA)**, established by the Government provides basis for investment promotion and protection, institutional infrastructure, and implements Government investment and export development policies. It acts as a "one stop shop" for investors and exporters, and promotes Armenian economy as an attractive place for investments. The Government envisions that ADA will have a worldwide network of representations and agencies in markets attractive for Armenia. The government envisions that ADA will have the international network of agencies and representations in the markets attractive to Armenia.

**The High level Business Support Council**, chaired by Prime Minister is a structure close to business community. The Business Support Council consists of 50 representatives of Government and business community and it is a structure, which addresses problems of business community and accelerates the improvement of business climate.

**The Chamber of Commerce of Armenia** established to facilitate development of Armenia's economy, integration to world economy and to strengthen commercial, scientific and technical links between domestic and foreign investors. The Chamber of Commerce of Armenia also supports creation of market infrastructure for entrepreneurship.