U.S. DEPARTMENT OF STATE
DIPLOMACY IN ACTION

Executive Summary

The Armenian government (GOA) officially welcomes foreign investment and the country has received respectable rankings on some global indices measuring business climate. Armenia's investment and trade policy is relatively open and foreign companies are entitled by law to the same treatment as Armenian companies (national treatment). Armenia has a highly educated workforce and the high-tech and information technology (IT) sectors have attracted foreign investments – particularly from the U.S. The “Alliance” Free Economic Zone opened in 2013 in the capital, Yerevan, and is designed to attract IT, electronics, pharmaceutics and biotechnology, engineering, industrial design, and alternative energy businesses. 2014 also saw a major U.S. investment in Armenia’s energy generation sector. However, Armenia’s investment climate can be difficult and poses several serious challenges: a population of less than three million; relative geographic isolation due to closed borders with Turkey and Azerbaijan; per capita gross national income (GNI) of about USD 3,700; and high levels of corruption in both official and commercial spheres.

Armenia has no limitations on the conversion and transfer of money or the repatriation of capital and earnings, including branch profits, dividends, interest, royalties, or management or technical service fees. The banking system in Armenia is sound and well-regulated, but Armenia's financial sector is not highly developed. Foreign individuals who do not hold special residence permits cannot own land, but may lease it; companies registered by foreigners in Armenia as Armenian businesses have the right to buy and own land. There are no restrictions on the rights of foreign nationals to acquire, establish or dispose of business interests in Armenia. The U.S. - Armenia Bilateral Investment Treaty (BIT) provides that if a dispute arises between an American investor and the Republic of Armenia, the investor may choose to submit the dispute for settlement by binding international arbitration. Although Armenian legislation complies with the Trade Related Aspects of Intellectual Properties (TRIPS) Agreement and offers protection of intellectual property rights (IPR), enforcement efforts need to be improved.

The Armenian regulatory system is not implemented transparently. Major sectors of Armenia's economy are controlled by well-connected businessmen who enjoy government-protected market dominance. Corruption remains a significant obstacle to U.S. investment in Armenia. Although the Government of Armenia introduced a number of reforms over the last few years, and the overall investment climate seems to be improving incrementally, corruption remains a problem in critical areas such as the judiciary, tax and customs operations, health, education, and law enforcement. Tax and customs processes, while having improved somewhat, still lack transparency and the use of reference prices instead of invoice prices during customs clearance, adds to costs, and leads to an uneven playing field. The court system lacks independence, making it an unreliable forum for resolution of disputes.

1. Openness To, and Restrictions Upon, Foreign Investment

The Armenian government (GOA) officially welcomes **foreign investment**; the country has received improved and respectable rankings on some global indices measuring the business climate. Armenia's investment and trade policy is relatively open; foreign companies are entitled by law to the same treatment as Armenian companies (national treatment). Armenia has strong human capital and a well educated population, particularly in the sciences. The high-tech and **information and communication** technology (IT) sectors have attracted foreign investment. International companies have established branches or subsidiaries in Armenia to take advantage of the country's pool of qualified specialists. However, Armenia's **investment climate** poses several challenges: a population of less than three million; relative geographic isolation due to closed borders with Turkey and Azerbaijan; per capita gross national income (GNI) of about USD 3,700; and high levels of corruption in both official and commercial spheres. Foreign businesses must frequently contend with tax and customs processes that lack transparency and add to costs; the court system lacks independence, making it an unreliable forum for resolution of disputes; and while it has made progress, particularly in refund of value-added tax (VAT) payments across the board, the application of reference prices during customs clearance does not ensure a level playing field for all businesses.

Major sectors of Armenia's economy are controlled by well-connected businessmen—some of them members of parliament or other high-ranking officials—who enjoy government-protected market dominance. This raises **barriers to new entrants**, limits consumer choice, and discourages investments by multinational firms that insist on partnering with politically-independent businesses. The Armenian government has also on occasion deployed government agencies, including the tax and customs services, against political or economic opponents.

Basic provisions regulating American investments are set by a **bilateral investment treaty** in force since 1996, and by the 1994 Law on Foreign Investment. In addition to providing for national treatment and most-favored nation treatment, the BIT sets out guidelines for the settlement of disputes involving the governments of either party. Armenia's 1997 Law on Privatization (amended in 1999) states that foreign companies have the same rights to participate in privatization processes as Armenian firms. The Armenian government does not screen foreign direct investments and there are neither limits on foreign ownership or control, nor any sector specific restrictions. Nevertheless, the majority of important privatizations of Armenia's large assets have not been competitive or transparent, and political considerations have in some instances trumped Armenia's international obligations to hold fair tender processes.
The seemingly open legislative framework and the government's visible effort to attract more **foreign investment** are complicated by instances of unfair tender processes and preferential treatment. Such instances, as well as the state's failure to ensure a fair investigation of abuses and judicial review have undermined the government's assurances of equal treatment and transparency. However, on September 15, 2011, the Republic of Armenia became the first CIS country and 15th Party to accede to the WTO's Government Procurement Agreement (GPA). This accession is viewed as a positive move aimed at increasing the openness and transparency of internal markets. Over the past two years, in accordance with Armenia's WTO commitments on non-discrimination, the Armenian Parliament has amended the Law on Excise Tax in an attempt to equalize duties and taxes on gasoline, alcohol, and tobacco for local producers and importers.

Armenia is a member of the following major **international organizations**: IMF, World Bank/IDA, IFC, WTO, OSCE, Council of Europe, UN/UNCTAD/UNESCO, MIGA, ILO, WHO, WIPO, INTERPOL, European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), IAEA, World Tourism Organization, World Customs Organization, International Telecommunications Union and the Organization of the Black Sea Economic Cooperation (BSEC). Armenia's most recent Investment Policy Review was a Trade Policy Review conducted by the WTO in 2010. The report can be accessed here: http://www.wto.org/english/tratop_e/tpr_e/tp328_e.htm

The government adopted a new Industrial Strategy in December 2011 and developed action plans for the following priority industries: **agribusiness**, pharmaceutics and biotechnology, **architecture and engineering**, **information and communication**, and **textile, apparel, and sporting goods**. The Government of Armenia offers foreign investors a one stop shop for assistance, the Armenian Development Agency. The Ministry of Economy also maintains a list of prospective investment projects which identify local businesses looking for foreign investors or partners.

The largest foreign investors in Armenia are those that have acquired interests in the telecommunications, mining, energy, air transportation, and financial sectors. The privatization of Yerevan's largest hotels, two historic brandy factories, the Zvartnots International (Yerevan) and Shirak (Gyumri) Airports, the telecommunications network, several mining assets, and much of the energy generation and distribution system accounts for the bulk of the foreign commercial presence in Armenia.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	**Year**	**Rank or value**	**Website Address**
TI Corruption Perceptions index	2013	94 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	41 of 177	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	37 of 189	http//doingbusiness.org/rankings
Global Innovation Index	2013	59 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	3, 720 USD	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

TABLE 1B - Scorecards: The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or $4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC's indicators and a guide to reading the scorecards, are available here: http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf

2. Conversion and Transfer Policies

Armenia has no limitations on the **conversion** and **transfer of money** or the repatriation of capital and earnings, including branch profits, dividends, interest, royalties, or management or technical service fees. Most banks can transfer funds internationally within two to four days. The GOA maintains the Armenian dram (AMD) as a freely convertible currency under a managed float, although between September 2008 and March 2009 the Central Bank of Armenia (CBA) sought to maintain the AMD through intervention in the foreign exchange market. According to the 2005 law on "Currency Regulation and Currency Control," prices for all goods and services, property and wages must be set in AMD. There are exceptions in the law, however, for transactions between resident and non-resident businesses and for certain transactions involving goods traded at world market prices. The law requires that interest on foreign currency accounts be calculated in that currency, but be paid in AMD.

The current AMD/USD **exchange rate** is fluctuating around 410-415 drams to the dollar, showing two percent devaluation in 2013. The foreign exchange market has remained relatively stable, with no major currency shocks following the 20 percent AMD devaluation in March 2009 (precipitated by the CBA ceasing its interventions through sales of foreign reserves). Officially reported annual inflation was 5.8 percent in 2013, which is higher than the GOA's original projection of four to five percent, although independent assessments place the inflation rate much higher.

3. Expropriation and Compensation

Under Armenian law, foreign investments cannot be nationalized. They also cannot be confiscated or **expropriated** except in extreme cases of natural or state emergency, upon a decision by the courts and with **compensation** paid to the owner. The U.S. Government is not aware of any confirmed cases of expropriation.

4. Dispute Settlement

According to the 1994 Foreign Investment Law, all **disputes** that arise between a foreign investor and the Republic of Armenia must be settled in Armenian courts. In late January 2007, however, then Armenian President Robert Kocharian signed a new law on Commercial Arbitration, which provides investors with a wider range of options for resolving their commercial disputes. The U.S.- Armenia BIT provides that in case a dispute arises between an American investor and the Republic of Armenia, the investor may choose to submit the dispute for settlement by binding international arbitration. As an international treaty, the BIT supersedes

Armenian law, a point which Armenia's constitution acknowledges and which holds in actual practice.

Many Armenian **courts** suffer from low levels of efficiency, independence and professionalism, and there is a need to strengthen the Armenian judiciary. Very often in cases when additional forensic expertise is requested during the judicial proceedings, the court may suspend the process until the forensic opinion is received and that may take up to a year. Litigants are wary of turning to Armenian courts for redress because of the lack of judicial independence. Judges at the court of common jurisdiction are reluctant to make a decision without checking with their superiors at the appellate court for fear of being disciplined. Thus decisions may be influenced by factors other than the law and merits of the cases. While there have been a few investment disputes involving U.S. and other foreign investors, there is no evidence of a pattern of discrimination against foreign investors in these cases. In general, the government honors judgments from both arbitration and Armenian national courts.

Disputes to which GOA is not a party may be brought before an Armenian or any other competent court, as provided by law or by agreement of the parties. Commercial disputes are tried in courts of general jurisdiction which also adjudicate civil and criminal cases. The specialized administrative courts adjudicate cases brought against state entities. The verdicts can be appealed to the Court of Appeal and Court of Cassation, the highest judicial authority in Armenia. The Law on **Arbitration** Courts and Arbitration Procedures provides rules governing the settlement of disputes by arbitration. Armenia is a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the Washington Convention) and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

According to the Law on Bankruptcy adopted in December 2006, the creditors, equity and contract holders (including foreign entities) have the right to participate and defend their interests in the judicial proceedings of a **bankruptcy** case. The creditors also have the right to access all materials relevant to the case, submit claims to the court in relation to the bankruptcy, participate in creditors meeting, and council and nominate a candidate to administer the case. Monetary judgments are usually made in local currency. The Armenian Criminal code defines sanctions for false and deliberate bankruptcy, as well as for concealment of property or other assets of the bankrupt party, or for other illegal activities during the bankruptcy process. Armenia amended its bankruptcy law in 2012 to clarify procedures for appointing insolvency administrators, reduce the processing time for bankruptcy proceedings, and regulate asset sales by auction.

According to the World Bank’s Doing Business 2014, resolving **insolvency** takes 1.9 years on average and costs 11% of the debtor’s estate, with the most likely outcome being that the company will be sold in a piecemeal sale. The average recovery rate is 36.4 cents on the dollar. Globally, Armenia stands at 76 in the ranking of 189 economies on the ease of resolving insolvency in Doing Business 2014 (rankings available at: http://www.doingbusiness.org/rankings).

5. Performance Requirements and Investment Incentives

The GOA has imposed **performance requirements** for investors as part of privatization agreements, especially for the privatization of large state-owned enterprises like mines or the telecommunications network. There are no performance requirements for de novo investment. The GOA takes a considerable interest in economic activities in the disputed region of Nagorno-Karabakh, which has resulted in the GOA pushing some foreign companies to agree to operate in Nagorno-Karabakh or face termination of their operations in Armenia.

Armenia currently has **incentives** for exporters (no export duty, **VAT** refund on goods and services exported) and foreign investors (income tax holidays, and the ability to carry forward losses indefinitely and temporary import regimes for raw material imports without VAT and customs duties). The GOA amended the VAT law in November 2005 to allow companies to delay VAT payments for one to two years on certain imported goods used in production and manufacturing. After the 2008 global financial crisis, the GOA made further amendments to the same law, and VAT payments for capital investment-related imports are delayed for three years if the amount exceeds AMD 300 million (USD 0.8 million), two years for AMD 70-300 million (USD 0.2-0.8 million) and one year if less than AMD 70 million (USD 0.2 million). Also, in accordance with the Law on Foreign Investment, several ad hoc incentives may be negotiated on a case-by-case basis for investments targeted at certain sectors of the economy and/or of strategic importance to the economy.

6. Right to Private Ownership and Establishment

The Armenian Constitution protects all forms of **property** and the right of citizens to own and use property. Foreign individuals who do not hold special residence permits cannot own land, but may lease it; companies registered by foreigners in Armenia as Armenian businesses have the right to buy and own land. There are no restrictions on the rights of foreign nationals to acquire, establish or dispose of business interests in Armenia.

Privatization: Armenia's 1997 Law on Privatization (amended in 1999) states that foreign companies have the same rights to participate in privatization processes as Armenian firms. Nevertheless, the majority of important privatizations of Armenia's large assets have not been competitive or transparent, and political considerations have in some instances trumped Armenia's international obligations to hold fair tender processes.

7. Protection of Property Rights

Armenian law protects secured interests in **property**, both personal and real. Armenian legislation provides a basic framework for secured lending, collateral and pledges, and provides a mechanism to support modern lending practices and title registration. In the World Bank's Doing Business 2014 report Armenia ranked 5th among 189 economies on the ease of registering property.

Domestic legislation, including the 2006 Law on Copyright and Related Rights, provides for the protection of **intellectual property rights (IPR)** on literary, scientific and artistic works (including computer programs and databases), patents and other rights of invention, industrial design, know-how, trade secrets, trademarks, and service marks. The Intellectual Property

Agency (IPA) in the Armenian Ministry of Economy is responsible for granting patents and for overseeing other IPR related matters. Armenia requires no state registration for copyright. The collective management organization Armauthor manages authors' economic rights. Trademarks and patents require state registration by the IPA. There is no special trade secret law in Armenia, but protection of trade secrets is partially covered by patent registration. Formal registration is easy and transparent, the database of IPR registrations is public, and applications to register intellectual property are published online for two months for comments by third parties.

Armenia's legislation is in compliance with the Trade Related Aspects of Intellectual Properties (TRIPS) Agreement. In 2005 Armenia created an IPR Enforcement Unit in the Organized Crime Department of the Armenian Police, which does not however have ex-officio rights and acts only based on complaints from right holders.

Despite the existence of relevant legislation and executive government structures, the concept of IPR remains unrecognized by a large part of the local population. The onus for IPR complaints remains with the offended party. Although exact statistics are unavailable, the police assert the number of court cases involving IPR violations increased in 2013 compared to previous years and note that the majority of cases are settled through out-of-court proceedings. While the GOA has made some progress on IPR issues, including the requirement that as of April 2013 all licensed products for sale within Armenia are required to be marked with a special hologram, strengthening **enforcement mechanisms** remains necessary.

A new Law on Copyright is currently being drafted. It includes provisions from new international agreements and provides additional detail on many of the provisions in the current law. Copyright contract rights are better defined and examples of contracts between the user and the right-holder are included. Phonogram producers' rights are harmonized with copyright holders' rights and are extended to 70 years. The new legislation also includes specific provisions from the Beijing Treaty regulating the rights of disabled artists and orphan works. The IPA has also proposed changes to the Civil Code and Criminal Code to improve IPR protections by specifying in more detail what information the court should take into consideration when determining compensation, fair remuneration, and calculating damages.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Contact at Mission:

Elizabeth Hanny, Economic Officer
+374-10-49-44-02
hannyee@state.gov

The American Chamber of Commerce in Armenia can be contacted at info@amcham.am . The list of local lawyers can be found at U.S. Embassy Yerevan's web-page at http://armenia.usembassy.gov/legal.html

8. Transparency of Regulatory System

The Armenian **regulatory system** is still not implemented in a sufficiently transparent manner. A small cadre of businesses dominates particular sectors and suppresses full competition. The inconsistent application of tax, customs, (especially with respect to valuation) and regulatory rules (especially in the area of trade) undermines fair competition and adds uncertainty for small- and medium-sized businesses and new market entrants. Armenia's legislation is not compatible with international standards for competition or the responsibilities of its **competition** authority. Furthermore the legislation does not clearly define "violations of fair competition", "dominant role", or "prevention of competition violations". Penalty levels and the efforts of the State Commission for the Protection of Economic Competition (SCPEC) are not sufficient to ensure a level playing field. Banking supervision is relatively well developed and largely consistent with the Basel Core Principles. In early 2006, the CBA became the primary regulator for all segments of the financial sector, including banking, securities, insurance and pensions.

Safety and health requirements, most of them holdovers from the Soviet period, generally do not impede investment activities. Bureaucratic procedures can nevertheless be burdensome, and discretionary decisions by individual officials still provide opportunities for petty **corruption**. Despite persistent problems with corrupt officials, both local and foreign businesses assert that a sound knowledge of tax and customs law and regulations enables business owners to deflect a majority of unlawful bribe requests. A unified or standard procedure for soliciting a wide range of public comments on proposed draft legislation is lacking.

9. Efficient Capital Markets and Portfolio Investments

The **banking** system in Armenia is sound and well-regulated, but Armenia's financial sector is not highly developed. As of October 2013, total bank assets were USD 6.59bln (about 69 percent of GDP), up 14.4 percent from October 2012. The insurance market is very small, with total annual premiums in 2013 amounting to approximately USD 122 million. IMF estimates suggest that banking sector assets account for about 90 percent of total financial sector assets. Financial intermediation is poor: commercial lending rates in AMD range from 14 to 15 percent for business entities and from 17 to 20 percent for individuals. Because Armenian banks charge service and other fees, the actual interest rate paid by the customer may be higher. Nearly all banks require **collateral** located in Armenia, and large collateral requirements often prevent potential borrowers from entering the market. This remains the main barrier for SMEs and start-up companies. Commercial lending rates did not register significant fluctuations during 2013. Mortgage rates at the end of 2013 were 12.5 -13 percent.

The GOA has a welcoming attitude towards foreign portfolio investments and there is a system and legal framework for investments in place. However, Armenia's **securities market** is not well developed and has only minimal trading activity. In January 2008, OMX, a leading expert in the equities exchange industry, acquired the Armenian Stock Exchange and the Central Depository of Armenia, becoming their sole shareholder. In February 2008 OMX and NASDAQ merged into NASDAQ-OMX. In addition OMX and the GOA signed a Cooperation Agreement outlining joint efforts to support the long-term development of capital markets in Armenia. Currently the establishment of cross-border settlement links with global custodians is underway to ease access to Armenian financial instruments. Liquidity for the transfer of large sums can be difficult due to the small size of Armenia's financial market and overall economy.

Remittances constitute approximately 15 percent of Armenia's total GDP, a variable statistic because of the difficulty of tracking cash payments. According to the latest data released by the CBA, the volume of net private (non-commercial) remittance inflows in 2013 was USD 1.54 billion, an increase of 10.7 percent over the previous year. The most recent survey by the CBA indicates that more than one third of Armenian households regularly receive remittances. About 92 percent of these remittances originate in Russia and the remainder comes primarily from the United States (3.2 percent), Europe and other CIS countries.

10. Competition from State-Owned Enterprises

Most of Armenia's **state owned enterprises (SOEs)** were privatized in the 1990s and early 2000s. There are no laws or rules that ensure a primary or leading role for SOEs in any specific industry. SOEs in Armenia are subjected to the same tax regime as their private competitors.

11. Corporate Social Responsibility

There is not a widespread understanding of **corporate social responsibility (CSR)** in Armenia, but several larger companies with foreign ownership or management are introducing the concept. It is rare to see examples of Armenian companies that contribute to their local community through charity, employee service days, or other similar programs, but those CSR programs which do exist are viewed favorably.

12. Political Violence

Political rallies in the aftermath of the 2008 presidential **elections** turned violent, as clashes between government security forces and opposition demonstrators resulted in dozens of casualties and 10 fatalities. Since then, political demonstrations have occurred mostly without incidents of violence, with a few exceptions of isolated skirmishes between demonstrators and the police. None of these incidents caused any damage to projects or installations nor did they impede the functioning of businesses in the country. In the past the GOA has used tax audits, money laundering investigations, and other official mechanisms to retaliate against business people who support the **political opposition**.

A cease-fire with Azerbaijan has been in effect since 1994 for the conflict surrounding the disputed region of **Nagorno-Karabakh**. However, intermittent gunfire along the cease-fire line and along the border with Azerbaijan continues, often resulting in injuries and/or deaths. There have been no threats to commercial enterprises from skirmishes in the border areas. It is unlikely that civil disturbances, should they occur, would be directed against U.S. businesses or the U.S. community. Because of the existing state of hostilities, consular services are not available to U.S. citizens in Nagorno-Karabakh.

13. Corruption

Corruption remains a significant obstacle to U.S. investment in Armenia. GOA introduced a number of reforms in the last few years, including the simplification of licensing procedures, registration of commercial legal entities, civil service reform, a new criminal procedure code, privatization in the energy sector, and anti-corruption laws and regulations. Nevertheless, corruption remains a problem in critical areas such as the judiciary, tax and customs operations, health, education, and law enforcement. The police and investigative services are responsible for investigating corruption, and the prosecutor general is responsible for prosecuting it. Both large scale and petty corruption are widespread.

Armenia is a member of the UN Anticorruption Convention, but is not a party to the OECD Convention on Combating Bribery of Foreign **Public Officials** in International Business Transactions. The GOA's most recent anti-corruption strategy paper and action plan for 2009-2012 did not yield any significant results. Priorities set by the new strategy included improvement of legislation and infrastructure to combat money laundering, an increase of transparency in the public sector, and enhancement of the accountability of all branches of government. In July 2012, the President approved a new strategy and action plan for Justice Sector **Reforms** for 2012-2016 which addresses most of the problems in the judiciary, prosecutors' office, and civil, criminal, and administrative legislation. In January 2012, pursuant to the law on Public Service adopted in 2011, an Ethics Commission for High-Ranking Officials was established. The Commission collects and monitors the asset declarations of high-level officials. However, there are no criminal penalties for noncompliance or filing of false declarations.

The Law on Civil Service, in force since 2002, restricts participation by **civil servants** in commercial activities. Relationships between high-ranking government officials and the emerging private business sector encourage influence peddling. Powerful officials at the federal, district, or local levels acquire direct, partial or indirect control over emerging private firms. Such control is exercised through a hidden partner or through majority ownership of a prosperous private company. This involvement can also be indirect, e.g., through close relatives and friends. These practices promote protectionism, encourage the creation of monopolies or oligopolies, hinder competition, and undermine the image of the government as a facilitator of private sector growth.

Corrupt practices are widespread within private companies as well, mostly in the form of tax fraud and unregistered business activities. The GOA has made several attempts to cut back on shadow economic activity and tax evasion, as well as to increase budget revenues, through tax amendments and stricter regulations and enforcement. A recent effort to increase **tax compliance** by larger companies was legislation permitting the State Revenue Committee (SRC) to place tax inspectors on the premises of large companies (those with annual turnover exceeding USD 10.5 million, and/or those with more than USD 1.3 million in imports in a three-month period) to oversee sales volumes, prices and corresponding documentation, product deliveries, etc. The amendment went into effect in January 2010; in 2012 the list of companies with resident tax inspectors increased from 25 to 37. In another move to increase transparency and awareness of major tax-dodgers, the GOA has published quarterly lists of the country's largest business taxpayers since 2006.

According to the **Transparency International (TI)** 2013 Corruption Perception Index (CPI) report, Armenia with a score of 36 (on a "100-0" scale, where "100" is the cleanest country and "0" is the most corrupt), ranked 94th among 177 countries. Global Corruption Barometer 2013, a worldwide public opinion survey, identified the Armenian judiciary as the most corrupt, followed by public officials and civil servants, and police.

14. Bilateral Investment Agreements

Armenia has shared a **bilateral investment treaty (BIT)** with the United States since 1996, which sets forth conditions for investors of each party to be no less favorable than for national investors (“national treatment”) or for investors from any third state (“most favored nation” clause), as well as providing the option of international arbitration in the case of investment disputes. Armenia has BITs in force with 31 countries: the U.S., Argentina, Austria, Belarus, Belgium, Bulgaria, Canada, China, Cyprus, Egypt, Finland, France, Georgia, Germany, Greece, India, Iran, Italy, Kyrgyzstan, Latvia, Lebanon, Lithuania, Luxembourg, Romania, Russia, Sweden, Switzerland, Syria, Ukraine, the United Kingdom and Vietnam. According to the U.N. Conference on Trade and Development (UNCTAD), Armenia has also signed BITs with Iraq, Israel, The Netherlands, Qatar, Tajikistan, Turkmenistan and Uruguay, but these agreements have not yet entered into force. Armenia is a signatory of the CIS Multilateral Convention on the Protection of Investor Rights.

Tax Treaty: Armenia does not issue foreign tax credits and does not recognize the existing 1973 **double taxation treaty** with the United States to which it is party, as one of the former Soviet Republics which are now covered by the treaty with the Commonwealth of Independent States (CIS), formerly known as the Union of Soviet Socialist Republics (USSR). GOA has expressed interest in negotiating a new double taxation treaty with the United States, but no record of a U.S. company currently being double-taxed exists.

15. OPIC and Other Investment Insurance Programs

Armenia has shared an Investment Incentives Agreement with the U.S. **Overseas Private Investment Corporation (OPIC)** since 1992. OPIC mobilizes private capital to help solve critical development challenges, providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds. OPIC is currently involved in three **projects** in Armenia: one for the expansion of the Yerevan Marriott and another involving FINCA Universal Credit Organization which is part of a multi-country, seven-year $45 million loan to FINCA Microfinance Holding for micro-lending. OPIC is also likely to be involved in the financing of a major energy generation asset acquisition by a U.S. company in 2014. Armenia is also a member of the World Bank’s Multilateral Investment Guarantee Agency (MIGA).

Transactions within Armenia are generally required to be designated and paid in local currency, the Armenian dram. There are no limitations on the conversion or transfer of money. Post is not aware of any convertibility risks caused by the Government of Armenia blocking **convertibility** or transfer of funds. The Mission has to follow specific regulations to convert USD into local currency, but there are no difficulties and the exchange rate for the Mission is almost the same as in the local foreign exchange market.

16. Labor

Armenia's human capital is one of its strongest resources. The **labor force** is generally well educated, particularly in the sciences. Almost one hundred percent of Armenia's population is literate. Enrollment in secondary school is over 90 percent, and enrollment in senior school (essentially equivalent to American high school) is about 85 percent. The official unemployment level is about 17%, but according to various expert estimations, the real unemployment level is closer to 30 percent.

Armenian law protects the rights of workers, except for personnel of the armed forces and law enforcement agencies, to form and to join independent unions. The law also provides for the right to strike, with the same exceptions, and permits collective bargaining. The law stipulates that workers' rights cannot be restricted because of membership in a union. Labor organizations remain weak because of employer resistance, high unemployment, and poor economic conditions. **Labor unions** are generally inactive with the exception of those connected with the mining and chemical industries. Unions are tied closely to the government.

Much of the new foreign investment in Armenia has occurred in the high-tech sector. High-tech companies have established branches or subsidiaries in Armenia to take advantage of the country's pool of qualified specialists in electrical and computer engineering, optical engineering, and software design. Pilot training programs have increased the supply of qualified software programmers, and Armenia's IT sector is growing based on its qualified pool of inexpensive labor. Currently there are around 360 IT firms in Armenia, which employ approximately 9,400 local staff.

The amended **Labor Code** came into force in June 2005, and is considered to be largely consistent with international best practices and the international conventions to which Armenia is a party. The law sets a standard 40-hour work week, with 20 days of mandatory annual paid leave. However, some private sector employees, particularly in the service sector, are unable to obtain paid leave and are required to work more than eight hours a day without additional compensation. The current legal minimum wage established by the 2014 budget is AMD 45,000 (USD 110) per month. Most companies also pay a non-official extra-month bonus for the New Year's holiday. Entry-level skilled professionals (such as software engineers) command wages of about USD 500 per month. Wages in the public sector are often significantly lower than those in the private sector and, while all wages must be paid in AMD, many private sector companies continue to use a fixed exchange rate to denominate employee salaries.

17. Foreign Trade Zones/Free Ports

In June 2011, Armenia adopted a Law on **Free Economic Zones (FEZ)**, and developed several key regulations at the end of 2011. The GOA hopes to attract foreign investments into FEZs and exempts them from VAT (value added tax), corporate income/profit tax, customs duties and property tax and there no export tax. The "Alliance" FEZ was opened on August1, 2013, and currently has two businesses taking advantage of its facilities. The focus of "Alliance" FEZ is on high-tech industries which include **information and communication** technologies, electronics, pharmaceutics and biotechnology, **architecture and engineering**, industrial design and alternative energy.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*Millions U.S. Dollars)*	2013 2012 2011 2010 2009	10,432 9,949 10,142 9,259 8,647	2013 2012 2011 2010 2009	No data 9,950 10,142 9,260 8,648	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (*Millions U.S. Dollars, stock positions)*	2013 2012 2011 2010 2009	No data 3.9 24.2 17.8 22.5	2013 2012 2011 2010 2009	No data 1 1 1 1	(BEA) click selections to reach. • Bureau of Economic Analysis • Balance of Payments and Direct Investment Position Data • U.S. Direct Investment Position Abroad on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Host country's FDI in the United States (*Millions U.S. Dollars, stock positions)*		No national data available	2013 2012 2011 2010 2009	No data 0 0 0 0	(BEA) click selections to reach • Balance of Payments and Direct Investment Position Data • Foreign Direct Investment Position in the United States on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)

Total inbound stock of FDI as % host GDP (***calculate***)	Year 2013 2012 2011 2010 2009	Amount No data 0.037 0.24 0.19 0.026	-	-	

* Armenian (host country) statistical sources:
http://www.armstat.am/en/?nid=126&id=01001
http://www.armstat.am/en/?nid=126&id=17010&submit=Search
http://www.armstat.am/file/doc/99477378.pdf - Statistical Year Book of Armenia 2013, page 512-513
www.bea.gov/international/xls/FDIPositionbyCountryofUBO.xlsx

TABLE 3: Sources and Destination of FDI
Armenia, 2012

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	5,046	100%	Total Outward	169	100%
Russian Federation	2,483	49%	Latvia	56	33%
France	322	6%	Bulgaria	36	21%
United States	252	5%			
Argentina	226	4%			
Cyprus	214	4%			
"0" reflects amounts rounded to +/- USD 500,000.					

Source: International Monetary Fund, *http://cdis.imf.org*

19. Contact Point at Post for Public Inquiries

- **ELIZABETH HANNY**
- **ECONOMIC OFFICER**
- **U.S. Embassy, American Avenue 1, Yerevan 0082, Armenia**
- **+374-10-49-42-00**
- **YerevanBusiness@state.gov**