ARMENIA
INVESTMENT MAP

Consulting

YEREVAN, 2010

Contents

1. General Information

Fast facts	
Full name:	The Republic of Armenia
Population:	3.24 million
Capital:	Yerevan
Area:	29.743 sq km (11.484 sq miles)
Major languages:	Armenian (native), Russian, spreading English
Major religion:	Christianity
Life expectancy:	71 years (men), 77 years (women) (UN)
Monetary unit:	Armenian dram (AMD)
Exchange rate	Average for 2009: 363.3 AMD/USD As of October 1, 2010: 361.08 AMD/USD
Main exports:	Metal products, foodstuff, processed diamonds, machinery.
GDP, current USD	8,54 billion USD (2010, NSS)
GDP per capita, PPP:	5,286 (current international $, World Bank, 2009)
Internet domain:	.am
International dialing code:	+374
Sovereign Country Ratings	
Moody's	Ba2 (August 19, 2010)
Fitch (country ceiling)	BB- (October, 2010)
Armenia's stand in international rankings	
Ease of Doing Business (The World Bank):	43 (Rank, 2010, out of 183 countries)
Index of Economic Freedom (Heritage Foundation):	38 (Rank, 2010, out of 179 countries)
Human Development Index (UNDP):	84 (Rank, 2009, out of 182 countries)
Global Competitiveness Index (World Economic Forum):	98 (Rank, 2010-2011, out of 139 countries)

a. Geography and natural resources

The Republic of Armenia is a small country located at the crossroads of Europe and Asia in the northeast of Asia Minor (Armenian Plateau), bordering Azerbaijan, Iran, Turkey and Georgia. With an area of 29,800 square kilometers, the country is about the size of Belgium or Maryland.

The capital city, Yerevan, lies on the Hrazdan River, and is home to some 1.1 million people. The next three largest cities are Gyumri (pop. 147,000), Vanadzor (pop. 105,000) and Abovyan (pop. 45,000). Another important city is Echmiadzin, located some 15 kilometers west of Yerevan, which is the seat of the patriarchate of the Armenian Apostolic Church.

The majority of Armenia is mountainous (about 2,000 meters above sea level), while one-third is pastureland. Forest and woodland cover 12 percent of the country, arid land - some 18 percent, and permanent crops cover 3 percent. The highest elevation is 4,095 meters (Mt. Aragats) and the lowest point is 400 meters above sea level (Debed River). One of the largest mountain lakes in the world, Lake Sevan, is about 2,000 meters above sea level.

The climate in Armenia is continental, with lower temperatures and more precipitation in higher elevations. In the central plateau temperature varies widely with cold winters and hot summers. Armenian mountains are rich in iron, molybdenum, gold, lead, silver, clay, limestone, as well as semi-precious and ornamental stones. Armenia possesses strategic deposits of molybdenum.

b. Population

Based on current official estimates, Armenia's population is 3.24 million with a moderate annual natural growth rate of 0.52%. Ethnically, Armenia is homogeneous country with 95% Armenians. While after the collapse of Soviet Union, many Armenians left the country, the negative migration trend turned into positive since 2006.

Labor Force

The total labor force was 1.1 million as an average during 2010. Many Armenians emigrated during 1990-2006, mostly to Russia as migrant workers.

The Armenian population has a high rate of literacy (100%) with a relatively high rate of primary (105%), secondary (88%) and tertiary enrollment (34%) in 2008. Due to high growth rates of economy, intensive growth of labor intensive sectors such as construction, tourism and reopening of large mining companies, the official unemployment rate decreased to 6.3% in 2008. However, affected by the economic recession, the indicator again rose to 6.9% in 2009.

Armenian Diaspora

The Armenian Diaspora, estimated at around 10,9 mln people, is spread in over 85 countries with major concentrations in Russia (2.3 million), United Sates (1.4 million), Georgia (0.25 million) and France (0.45 million). In the beginning of the 1990s, the Armenian Diaspora played a crucial role in the process of rebuilding the homeland after the collapse of the Soviet Union, transportation blockade, power shortage and conflict with Azerbaijan. Beyond the humanitarian, development work and political support, the Diaspora played an active role in attracting foreign investments through leveraging its potential to attract global companies such as HSBC, Coca Cola, Marriott, Golden Tulip, KPMG, National Instruments, Synopsis and Virage Logic.

c. Education

Education continues to be one of the key values in the Armenian society. Today, there are about 17 state and 48 private universities with about 115,000 students. Eight of the universities are foreign including the American University of Armenia (AUA), French University, European University and several Russian universities. Armenia is strong in information technology, medical and engineering (architecture, construction) education. There are more than 4,100 foreign students mostly from Georgia, Russia, Iran, India and Syria. The general quality of the education in Armenia is still perceived to be far from international best standards and there have been signs of decreasing quality especially at secondary education system in recent years. However, strong positive trends are also gradually taking shape due to growing international contacts and emerging collaboration between universities and private sector (particularly in IT with Synopsis and Sun Microsystems participation). The current intensive state reforms and WB initiatives address structural and content issues in both general and higher educational sphere.

d. Political system

Politics of Armenia takes place in a framework of a semi-presidential republic. According to the Constitution of Armenia, the President is the head of the executive power, the government. Legislative power is vested in the parliament. In fact, the Republican Party headed by President Serge Sargsyan controls the majority of voting power. Nevertheless, the government has been formed in coalition with Prosperous Armenia and Orinats Yerkir parties. Zharangutyun (Heritage) party and Armenian Revolutionary Federation (after withdrawal from the coalition) are opposition parties in the parliament. A strong opposition force has been formed by the former president Levon Ter-Petrosyan after the presidential elections in February 2008 alleging the authorities for falsification and misrepresentation of the results of elections.

e. Geopolitical environment

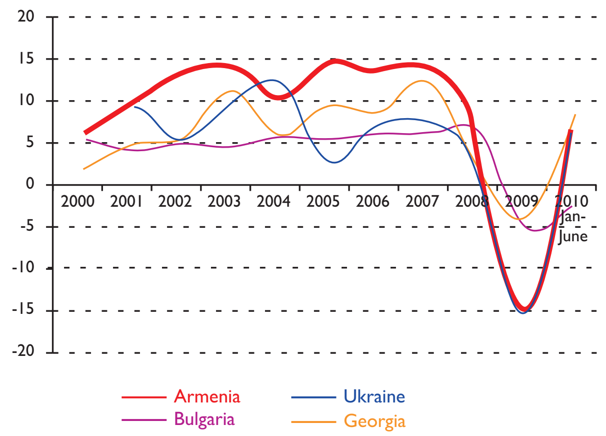
The geopolitical situation around Armenia is greatly influenced by the interplay of different interests of large global geopolitical players. Russia, United States, as well as European Union are very active in the region to maintain and increase their influence. While Georgia is strongly pro-western, Azerbaijan is trying to play between the West and Russia. Armenia in recent years is increasing its ties with Russia, especially in military and energy supply areas, while also maintaining good relations both with the US and EU. Few years ago, the United States built in Armenia the biggest US embassy in the region investing some $95 million. Armenia is one of the largest recipients of US assistance on per capita basis. Armenia has good relations with Iran and Georgia, and the relations and economic cooperation with these countries are developing. With the other two neighbors – Turkey and Azerbaijan, relations are tough. The modern Turkey denies the genocide of about 1.5 mln Armenians committed by Ottoman Turkey in 1915-1923.
The year of 2009 was marked with a major political event in Armenia-Turkey relations which had been frozen by official Ankara since 1993. Drafted protocols on the "Establishment of Diplomatic Relations between Armenia and Turkey" and on the "Development of Relations between Armenia and Turkey" was the first attempt of Armenian-Turkish rapprochement. The agreements were strongly opposed by some political parties in Armenia (including coalition member- ARF) and significantly endangered the relationships with Diaspora. Armenian Revolutionary Federation withdrew from coalition and organized massive protests against Armenia-Turkey relations. Despite the pressures by superpowers, mediating the process, it stalled since April 2010. Currently there are still no diplomatic relations with Turkey. In the same time there is substantial volume of trade.
There are no trade relations with Azerbaijan. The so-called Minsk Group of OSCE, represented by the US, Russia and French diplomats is mediating the negotiations between the two countries towards resolving the conflict between Armenia and Azerbaijan around Nagorno Karabagh, the historical province of Artsakh of Armenia.

2. Economy

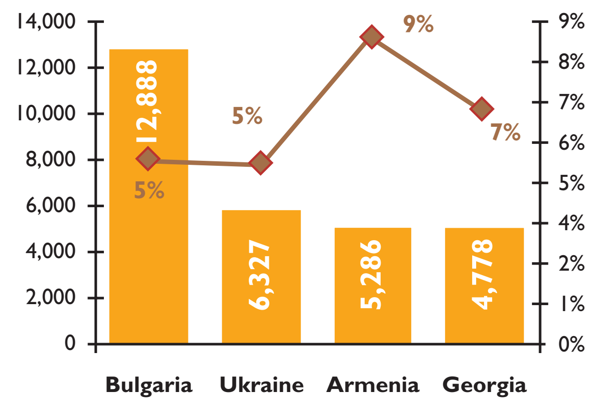
a. Macroeconomic environment and trends

i. Economic growth

GDP Growth (Annual %)



GDP per capita, PPP (current international $, 2009) and CAGR (constant 2000 $, 2000-2009)



The fastest GDP growth rate within CIS and CEE in 2000-2008 (except for some oil rich countries). The growth rate slowed at the end of 2008 due to the emerging negative effects of the global economic crisis.

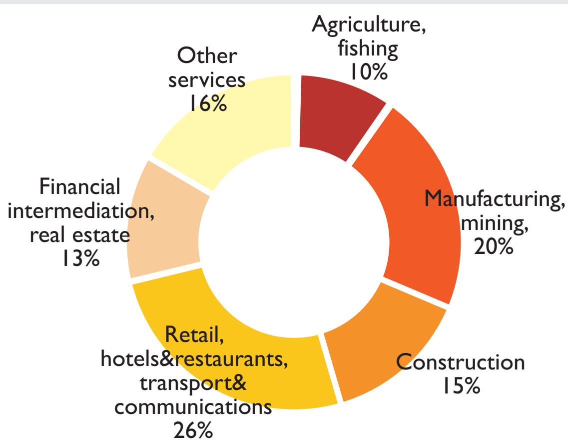
Key drivers of the growth until 2008:

- Construction fueled by private transfers from the Diaspora and donor-funded large infrastructure projects
- Large scale investments and expansion in mining
- Import substitution by traditional sectors of economy (agriculture, food processing)
- Fast growing service sectors (ICT, tourism, retail, financial intermediation)

As a result of the global economic crisis the decline in GDP in 2009 totaled to 14.2%. 2010 shows signs of revival. The fiscal year is expected to finish with a 5-6% positive economic growth.

- Armenia is ranked quite good by GDP per capita growth rates among CIS and CEE countries
- By its 2009 GDP volume Armenia is classified in the group of lower middle income countries, according to the World Bank classification.

GDP by Sectors of Economy, 2010 January-June

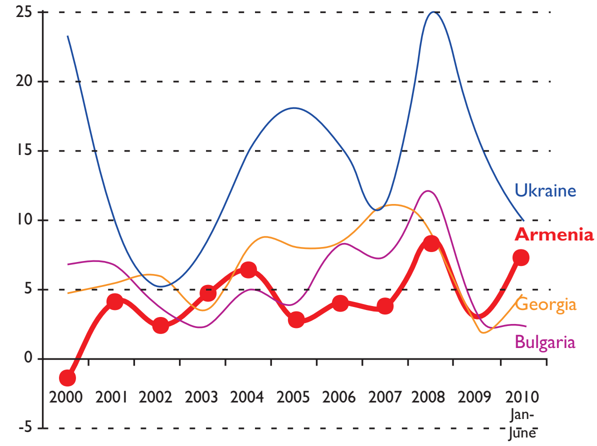


Recent trends:

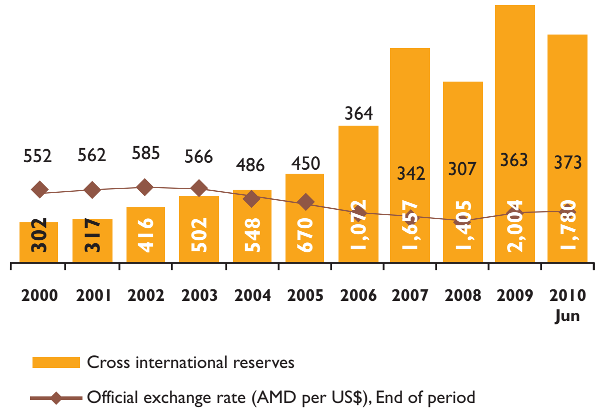
- Continuous shift towards services
- Increasing diversification of economy with decreasing share of construction in GDP
- Declining sectors: diamond cutting, textiles

ii. Inflation / currency / country debt

Inflation, 2000-2010, in %, January-June



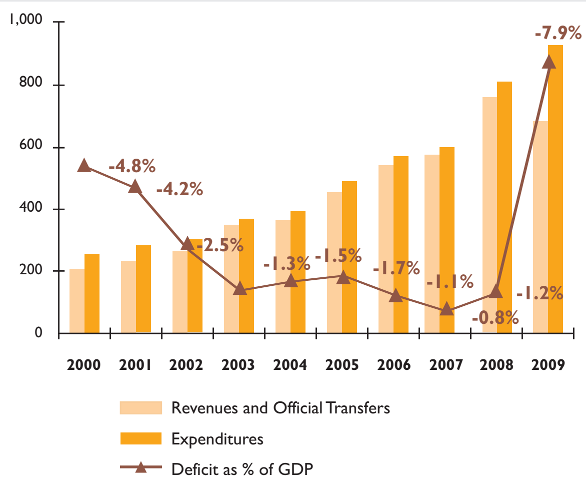
Gross International Reserves in million USD and Exchange Rate, 2000-2010 (January-June)



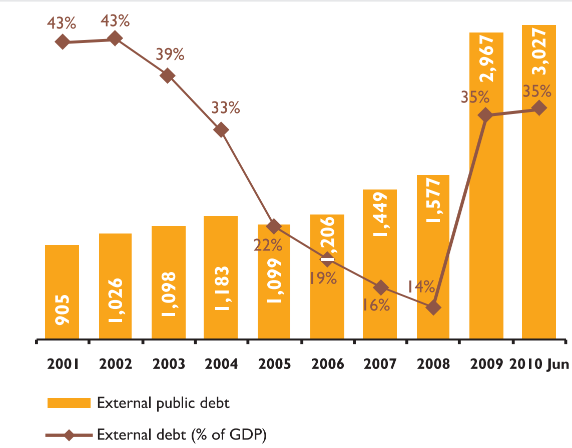
- Price stability is the main target of the Central Bank of Armenia, one of the most professional public institutions in Armenia
- Consistently strict monetary policy with the long term development strategy
- Very low level of inflation until 2008: it increased in 2008 due to high prices for major imported commodities during the first half of the year. Though the level of inflation was stabilized in 2009, average prices again significantly went up in 2010 and are currently being regulated by strict monetary policy.

- The investment of Diaspora in real estate and private transfers supported the appreciation of Armenian Dram since 2000.
- The sharp depreciation of AMD in February 2009 by 20% was a result of decreased exports and private transfers - implications of the economic crisis
- The level of foreign reserves has been fluctuating since 2007.

Public Finance, in million AMD



External Public Debt, in million USD and its share, as % of GDP



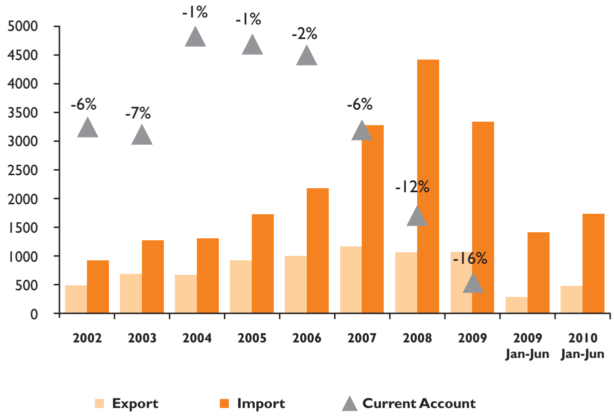
Note: External public debt for 2010 is given as of June 2010. The share of external debt in GDP is estimated based on 2009 GDP volume.

- Low state budget deficit, being less than 2% of GDP in the period of 2003-2008.
- An intentional sharp increase in the budget deficit in 2009, preconditioned by a 10% decline of revenues and 15% increment in the level of government expenditures.
- Increasing public spending on education, infrastructure enhancement and health care, but still moderate in absolute numbers
- Introduction of program budgeting to increase the efficiency of public spending
- Increasing transparency of public procurement
- Growing budget revenues due to economic growth and improving tax administration

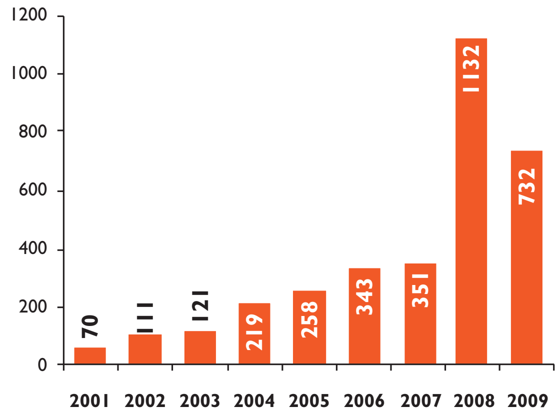
- During the recent years Armenia was considered a low indebted country according to WB classification.
- The volume of external public debt in Armenia increased by more than 75% only in the year of 2009.
- As of June 2010 the external debt comprises one-third of Armenia's GDP.
- The significant share of the debt is lending of multi- and bilateral donors with privileged conditions
- Main financing areas are defense, education, physical infrastructure, health care and reforms of public administration

iii. Foreign trade & investments

Foreign Trade and Current Account, in million USD



FDI Inflow, in million USD



- Continuously increasing export and import volumes were significantly cut down in 2009 as a result of global economic crisis
- The balance of trade and current account is negative and is rapidly increasing as a share in GDP, reaching the record level in 2009 due to high contraction in export volume
- The recent export decline was mostly associated with the deep crisis in international markets of mining products.
- The increasing prices and stabilization at global markets of a number of commodities, specifically base metals, fostered strong positive tendencies in Armenian foreign trade. During the first 6 months of 2010 export and import volumes increased by 56% and 25% accordingly, compared to the same period of 2009.

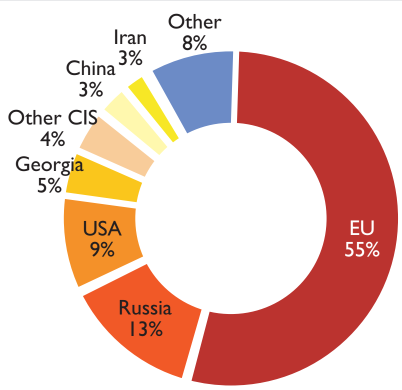
Increasing volumes of FDI until 2008 were driven by large privatization deals in mining, investment in telecom and airport infrastructure.

The 70% of FDI in 2008 was originated from Russia and went to energy and railway infrastructure.

Currently main investment targets in Armenia are:

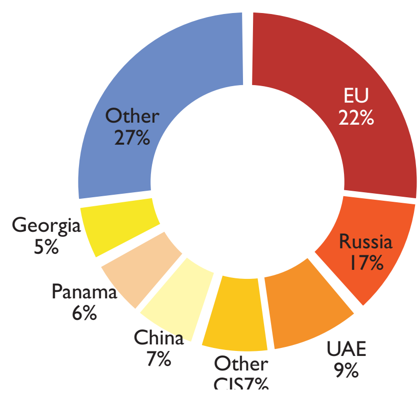
- Telecommunications
- Mining
- Food processing
- IT and R&D
- Tourism
- Airport infrastructure
- Energy generation and distribution

Export, 2010, January-June



Note: The numbers may not sum up to 100 due to rounding.

Import, 2010, January-June



- Armenia's export is quite concentrated in several product groups: base metals (copper, molybdenum, gold) and cut diamonds, food and beverages (canned and fresh food, brandy).
- High tech exports comprise 1% of total exports (2008).

- Main import commodities are natural gas, petroleum, tobacco products, foodstuffs, diamonds, machinery and equipment.
- The share of equipment, machinery and technologies is increasing, as a result of modernization in selected industries.

b. Business environment

i. Trade regime

Armenia has a liberal foreign trade regime with a simple two-band import tariff (at 0 and 10 per cent), no taxes on exports and no substantial 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. Excise taxes are charged at various rates on the import or production of some luxury goods (including alcohol, tobacco, caviar, petrol, precious stones and furs).

Since the end of 2002 Armenia has been a member of WTO. A **free trade regime** is in force with CIS countries. Being included in the EU Neighborhood policy, Armenia received a favorable trade regime GPS+ for Armenian exporters to EU in December 2008.

Although the customs legislation in general is compliant to WTO requirements, there are still loop-holes in administration, such as customs valuation of imported goods (the invoice value is applied in very rare cases).

ii. Fiscal / tax regime

The businesses mainly operate under general tax scheme. Fixed (presumptive) tax is applied to specific types of businesses (for example, small retail outlets, restaurant and hotel, car service center, transportation, gambling business, taxi and other services). This tax also substitutes VAT and profit or income tax.

Main taxes:

Type	Rate
Profit Tax (corporate income tax)	20%
Income Tax (personal income tax)	10-20%
Value Added Tax	20%

Other taxes :

Property tax; excise tax (oil, spirits, wine, beer, etc.); land tax; social security payments.

Total tax rate as a percent of profit according to WB's Doing Business, 2010:

Armenia	Eastern Europe & Central Asia	OECD	Georgia	Bulgaria	Ukraine
36.2	43.4	44.5	15.3	31.4	57.2

iii. Investment regime

The government of Armenia is highly promoting foreign investments and carrying out "open door" policy, including:
- Equal treatment for both foreign and domestic investors
- 100% foreign ownership is permitted
- No limitations on size and type of foreign ownership (except for the rights to own land by foreign citizens)
- Special investment incentives for foreign investors (customs duty exemptions for capital goods imported as contribution to share capital)
- Alternative dispute resolution mechanisms for foreign investors (ICSID)
- Guarantees for legislative changes (five-year "grandfather-clause")
- No restrictions for capital and revenue transfer and repatriation
- Liberal regime on employment of foreign workforce

The Armenian Government has signed investment protection and promotion treaties with 39 countries, including USA, Germany, Russia, and France, which provide additional guarantees for foreign investment. Additionally, to avoid the double taxation of incomes and property, Armenia has signed bilateral treaties with 32 countries.

iv. Monetary regime

The Central Bank of Armenia is responsible for the monetary policy in Armenia and is relatively free in policy decisions. The main policy target of CBA is the price stability in Armenia. The CBA is conducting freely floating foreign exchange rate policy.

v. Monopolies and market regulation

The competitive environment varies across the industries. Beyond the natural monopolies regulated by the Public Services Regulatory Commission (PSRC), there are sectors where a few large players control the market, including import of petrol, sugar and wheat, production of salt, tobacco, cement and mobile telecom. However, the majority of the economic sectors, especially service and export sectors are enjoying competitive environments. While there is a quite developed legislative (Law on Protection of Economic Competition adopted in 2000) and institutional framework (State Commission on Protection of Economic Competition), there has been limited success in enforcing measures aimed at promoting competitive environments in some industries.

vi. Business stimulation / subsidies

According to the Armenian legislation, the tax privileges are provided only by the law. There are very few tax incentives and subsidies (e.g. the exception from import duty of the imported goods intended for the increase of the statutory capital, subsidized pricing for gas). Currently, the Armenian Government's support to private sector is provided under SME development and innovation promotion schemes. While the scheme is endowed with limited resources, it has been enhanced by the recent commitment of the Government to provide full scale support to competitive companies to negate the impact of the global economic crisis.

vii. Physical infrastructure

The physical infrastructure in Armenia, especially roads (with major international and Diaspora-funded programs), electricity supply, telecommunications (including fix line telephony and IPS) and air transportation, have improved significantly in the past 10 years. Mobile telecom is booming after the monopoly on mobile phone services has been removed in 2005. The internet is rapidly becoming available throughout the whole country and the indicator of internet penetration improves in accordance to it. Since the end of 2009 all mobile operators provide internet services in Armenia, significantly expanding the market. ADC, an Armenian-Norwegian joint venture expanded the fiber optic network in Yerevan and Marzes. UCOM is a triple player providing internet, TV and fixed telephone services. The intensifying competition in the sector decreased the rates for internet significantly: it is estimated that the prices diminished about 10 times in the recent 5 years. iCON company, established in late 2007 with Diaspora-originated investment and Cornet (Russian-Armenian JV), first introduced WiMAX technologies in Armenia and fostered the development of wireless internet services in the country.

Railroad infrastructure inherited from the Soviet system is obsolete but a 30-year concession agreement with the South Caucasus Railways (SCR) for management of the Armenian Railways is expected to trigger sector development. The announced investment budget included more than US$100 million for infrastructure development only for 2009. The expected strategic developments in Armenian railway infrastructure in near future are the expansion of the transport network within the country and the establishment of transport communications with the neighboring countries. A large-scale project of developing Iran-Armenia railroad is drafted and is planned to be implemented in the near future. The total required investment is estimated to be 1.8 bln. USD. The government of Armenia is currently negotiating with the governments of Iran, Russia and China about the possibilities for sourcing financing for the project.

viii. Administrative infrastructure

The Armenian Government has successfully reformed the regulatory framework for the business. The simplified procedures for state registration and licensing have significantly reduced the time and efforts spent by companies. For standard cases, the state registration can be done within a day and license receipt - within 3 days. The number of activities requiring licensing has been radically reduced to a limited number of economic activities, such as telecommunication, transportation and construction services, food processing, health care services and pharmaceuticals, banking and insurance, energy generation and utilities.

Since 2010 the administrative infrastructure of Armenia has been supplemented with modern e-government system. The components of e-signatures, electronic tax reports, electronic registration for licensing and other electronic transactions are expected to minimize bureaucracy for the business and the residents.

Although enforcement of regulatory framework has also been improved, it is still far from being satisfactory. The business still complains about the cases of bureaucratic delays, non-efficient and not independent court decisions, red tape and unfair treatment in tax and customs.

3. Key investment and value creation themes by sector, 2009

a. Agriculture[1]

Industry Snapshot

Sector size[2]	
Absolute size[3]	~ $1398.3 million
Percent to GDP	16.4%
Number of employees	493,000/45% of workforce (2008)
Number of large players	around 15
Exports	$35.2 million
Key trends – Growth rates[4] (2007-2009)	
Sector	1.4%
Export	10%
Import	29%
Major players and selected recent major transactions	
Fruit Growing Fruitful Armenia, Max Fruit (Max Group)	**Domestic animals** **Poultry and Egg** «X-Group» (Yerevan and Arax Poultry Factories), Arzni Poultry Factory, Max Group (Lusakert Poultry Factory), Getamej Poultry Factory, Ashtarak Dzu **Fish** Arqa dzuk, Aquatic, Bakss, Akvatekhavtomatika

The sector is growing dynamically, experiencing considerable fluctuations in the same time. The sector is very fragmented with a large number of micro and small farms and enterprises, though a few large players emerged in the market in recent years. Since 2005 Eduardo Ernekian (an Argentinean-Armenian entrepreneur who manages Armenia's Zvartnots airport) with the local Max Group launched a $25 mln. investment project in fruit orchard and grapevine plantings on an area of 3,000 hectares. The project will build the capacity to process up to 50,000 tons of high quality fruit, which will considerably enhance the supply chain of the major consumer industry – food processing sector. Another large-scale investment was initiated by Spayka Group which established the only specialized modern refrigeration complex in the region. The complex has the capacity of keeping 1,200 tones of fruit.

There are several poultry and egg producers and a number of fish and crayfish producers. The fish and egg demand in Armenia is almost totally covered by local producers. The local consumers have strong preference towards the locally produced meat products, while the emerging fried chicken fast food chains are becoming major consumers of imported poultry meat due to price considerations. The pork meat supply is unstable since the outbreak of "hog cholera" in 2008. Only in 2008 the disease decreased pig livestock by 40% in the country. The fish market has been experiencing the most rapid pace of price increment reasoned by the abrupt limitations on fish supply from Sevan Lake. Crayfish is exported in CIS countries and Europe in limited scope.

The greenhouses are dynamically developing in recent years. Medium and large size greenhouses, with more than 5,000 sq.m., make up about 1/3 of total greenhouse territories totaling about 60-70ha. The majority (60%) of local greenhouses are specialized in vegetable growing (tomato, cucumber) and the rest (40%) in floriculture (cut flowers). There are considerable export opportunities to Russia for flowers but export is currently limited by the under scaled capacities of individual greenhouses.

The egg market experienced considerable price fluctuations in 2010 as the result of concerted price decrease by the largest players of the industry. A number of small-scale players could not withstand the pressures, which resulted in the consolidation of the market. The ongoing negotiations on the purchase of Lusakert Poultry by one of the major players are expected to further deepen the consolidation processes in the market.

1 Only selected sectors are presented in this document, for further more comprehensive overview of different sectors, please contact EV Consulting.
2 Hereinafter in the text absolute size is in value added terms for 2009, if not otherwise mentioned.
3 Excluding fishing
4 Hereinafter in the text growth rates are Average Annual Growth Rates (AAGR) for the past 3 years, if not otherwise mentioned.

b. Food Processing

Industry Snapshot

Sector size	
Absolute size (output)	~$603.2 million
Percent to GDP	7.1%
Number of key players	around 20
Exports	$99.6 million
Key trends – Growth rates (2007-2009)	
Sector	5.3%
Export	9%
Import	23%
Major players and selected recent major transactions	
Alcohol producers	**Canned food production and dairy products**
Yerevan Brandy Company (YBC), Noy, MAP, Great Valley, Vedi Alco, Proshyan Brandy Factory, Armenia	Euroterm, ArtFood, Sardarapat, Alishan, SIS Natural, Tamara, Ashtarak Kat, Marianna, Ani, BioKat, Borodino, MAP

Food processing might be subdivided to canned food production and alcohol production, which mainly uses local grapes for wine and brandy production.

The flagman of the industry - Yerevan Brandy Company, privatized to Pernod-Ricard in 1999, is producing famous Armenian cognac, since 1887. Other companies, including Yerevan Ararat Brandy-Wine-Vodka Factory and Great Valley are also successfully competing in export markets. 90% of the cognac production is exported (mostly to Russia).

The wine industry is more fragmented with many small wineries and vineyards competing in offering great variety of wines. 2010 was marked with the entry of a new player into the market – Armenia Wine. The modern wine factory with advanced technologies was established with significant investments.

Canned food industry, including canned vegetables (tomato, pickles, egg plant, etc) and fruits (apricots, peaches, whole nuts, apples, etc.), is also export oriented. The local industry is structured by 4-5 major local producers. Canned food is especially popular in the Armenian communities abroad. There are also companies freezing fresh fruits and vegetables. The canned product market has an untapped potential in Armenia, as the need for the product is mainly being satisfied based on the homemade products, which has a decreasing trend.

Dairy products segment is quite competitive with the major focus on domestic market. A new dairy production company – Ani entered the market in the midst of the crisis in 2009 with intensive marketing campaign.

The export of dairy products was limited up to now. There have been successful cases of cheese exports. Currently there are also plans on exporting other dairy products to neighboring Georgia.

Investment Opportunities (Agriculture and Food Processing)

Comparative advantages	**Issues**
• Quality soil for high value fruit production • Armenian and US governments (Millennium Challenge Account (MCA)) investments in rural infrastructure • Availability of large and cheap workforce • Favorable tax and customs regime	• Low quality and culture of workforce • Outdated production assets and simple technologies in some companies • Lack of established effective supply chains • Scantiness of advertising budgets

Investment Rationale

Acquisition of food processors and meat producers, introducing new technologies in production. Establishment of efficient productions achieving considerable economies of scale with attractive export opportunities.

c. Mining and Quarrying

Industry Snapshot

Sector size	
Absolute size	~$151.5 million
Percent to GDP	1.8%
Number of employees	8,300 / 1% of workforce (2008)
Number of key players	6-7
Export	$145.6 million
Key trends – Growth rates (2007-2009)	
Sector	-6.4%
Export	4%

Major players and selected recent major transactions

Zangezur Copper Molybdenum Company – mining, one of the biggest tax payers
Agarak Copper Molybdenum Company – mining (copper and molybdenum)
GeoProMining Gold (including Ararat Gold Recovery Company and Agarak Copper Molybdenum Company) – mining and smelting (gold, copper and molybdenum)
Deno Gold Mining Company – mining (gold)
Assat Mining and Gold Recovery Plant – mining and recovery (gold)
Armenian Copper Program (ACP) – smelting and mining (cooper and gold)
Pure Iron Factory – smelting (iron and molybdenum)
Metal Prince – mining (cooper)

Armenia has metal deposits of gold, copper, molybdenum (estimated at 7% of the world reserves) and some other rare metals. There are several large mines and enrichment factories, as well as a number of smaller mines. The industry was growing rapidly during the recent years, mainly driven by expanded capacities and high export prices. Several large investment projects have been undertaken in recent years. Sale of shares of Zangezur CMC (copper and molybdenum extraction) to German Chronimet in 2004 was the second largest privatization deal after Armenian telecom privatization. The contract amount was $132 million.

New mines are being explored, one of them a big copper mine in Teghut to be developed by ACP, expected to be launched in 2013. ACP's smelting factory in Alaverdi is smelting copper from concentrates, supplied from other companies. All the production is being exported to Germany. The industry development stage and maturity imply expansion of the value creation chain in the sector. A large-scale initiative of establishing a new copper smelter and refinery is currently being examined by the government and key stakeholders.

Deno Gold and GeoProMining are major gold miners in Armenia. Russian GeoProMining company, operating Sotk gold mine, acquired Ararat Gold Recovery Plant and Agarak Copper Molybdenum Company in 2007. In a 2 year period the company invested more than 160 mln USD only in the gold mine (including company acquisition). In 2009 the company was provided a 4-year loan with the amount of 14 mln USD by the government of Armenia. Since then the company has made large-scale investments in its technical enhancement program. In the coming years a total of 200 mln USD investments are projected to increase the gold mining volumes from current 25,000 to 150,000 ounces per annum.

There are also stone mines in Armenia rich with travertine, granite, Armenian tuff and other stones, demanded both in Armenia and abroad. Several local (Multi Stone) and Diaspora investors made considerable investments in the field, introducing modern technologies.

Due to instability in prices in international markets many of the companies reduced the output at the end of 2008 and beginning of 2009. However 2010 was marked with considerable positive developments in the sector and signs of rapid revival of local mining industry.

Investment Opportunities

Comparative advantages	Issues
• Rich metal deposits • Favorable commodity prices • Availability of qualified workforce • Strong R&D institutes • Favorable tax and customs regime • Government prioritization and support	• Increasing environmental concerns • Need for new generation of engineers and geologists

Investment Rationale

Commercialization of new deposits/consolidation of individual mines into larger entities, introduction of advanced enrichment and metal extraction technologies (e.g. hydrometallurgy).

d. Energy[1]

Industry Snapshot

Sector size		
Absolute size (output)	~$361.6 million	
Absolute size (value added)	~$272.8 million	
Percent to GDP	3.2%	
Number of employees	35,597 / 3.2 % of workforce (2007)	
Number of players	around 40 (7 large players)	
Key trends – Growth rate 2007-2009		
Sector	-0.3%	
Major players and selected recent major transactions		
Nuclear PP	Hrazdan Thermal PP	Vorotan Hydro PP
Yerevan Thermal PP	International Energetic Corp.	Dzora Hydro PP
Lori 1 Wind PP	30 Small Hydro PPs	Armrusgasprom

Energy sector consists of large energy production and small, mainly hydropower production. Large generating capacities are either state owned (Vorotan Hydro PP), or under management of Russian state-controlled companies (Nuclear PP) or ownership (Hrazdan Thermal PP, Hrazdan Hydro PP).

Energy sector with its high capacity for exports has strategic importance and central role in Armenian economy. In order to further foster export of energy from Armenia to the regional countries the second plant of the Nuclear PP is planned to be constructed to replace the old one in 2016. The energy is planned to be exported not only to Iran and Georgia, but also to Turkey.

Small hydropower (SHPP) and wind stations account for less than 5% of total electricity production, with plans to increase to some 15% in 10 years. There are 30 old and new SHPPs currently operating, some 45-50 projects are underway (some already approved by Public Services Regulatory Commission) with the potential of constructing 270 SHPPs. In this segment the players are relatively small. The Government is providing incentives for the development of this sector by fixing tariffs for new SHPPs at 5.4 cents for one Kwt of produced energy including VAT. There is a German Armenian Renewable Energy project, funded by German KfW bank, which provides technical and financial assistance to SHPPs both for renovation and new construction. Such projects need from $1 to $10 million approximately depending on the volume (about $1,000 per KWt).

In 2010 Ameriabank was provided a 15 mln USD loan by IFC and a 10 mln USD loan by FMO and DEG to finance small-scale renewable energy projects. The long-term financing at affordable rates will be available for building small hydropower plants. The Government is also active in hydropower energy development; several projects are being negotiated with the Iranian government, for example, construction of Meghri HPP on Arax River (140 Mwt). Two other big HPP projects are Lori-Berd on Debet River (60 Mwt) and Shnokh (75 Mwt). A wind power station in Pushkin, Lori was recently constructed by Iranian counterparts.

There are also a few small players in alternative energy, including solar technology development and wind power plants.

Gas import from Russia and recently from Iran is controlled by Armrusgasprom, an Armenian-Russian company with state participation and with Russian domination. There are around 450,000 natural gas users, while the number of electricity user households is 715,000.

Investment Opportunities

Comparative advantages	Issues
• Fixed rates and purchase of produced electricity for 15 years • Availability of hydro and wind resources • Availability of local expertise for construction and set up • Cheap labor available for operations • International (German) technical assistance available • Loans with favorable conditions for investment projects available	• Large electricity, gas and water companies belong either to Russian companies or are state owned and have political context • Government bureaucracy for licensing • Quality equipment is expensive and need to be imported

Investment Rationale

Construction of hydropower and wind stations, non-traditional energy research and commercialization. Several big hydropower projects are also available with capacity of up to 100 Mega Watts and requiring up to $100 million investments.

[1] The figures include electricity, gas and water supply

e. Construction and Real Estate

Industry Snapshot

Sector size	
Absolute size	~$1,507.6 million
Percent to GDP	17.7%
Number of employees	60,400 / 5.5% of workforce (2008)
Number of key players	around 20
Key trends – Growth rates (2007-2009)	
Sector	0.1%
Major players and selected recent major transactions	
Renco	Construction of residential and commercial property(incl. hotels)
Elite Group	Development of residential and commercial property in Armenia
Glendale Hills	Development of mixed use property
Hovnanian Int.	Community Development (Vahakni Residential Community)

The construction sector which fuelled the development of national economy was challenged with a deep depression as a result of the recent global economic crisis. In 2009 the volume of construction decreased by 36.5%. The housing construction, which grew on average by 25% annually from 2005 to 2008, decreased by 19.5% in 2009.

Before the crisis the sector was booming and was the major contributor to the economic growth. The growth was driven by local and Diaspora private investments, as well as the Government's program to rebuild the center of Yerevan, coupled with international programs on infrastructure development in rural areas. The boost was provided by large-scale road reconstruction program financed by American-Armenian billionaire Kirk Kirkorian and followed by private investments.

Since the end of 2008 the limited availability of financing has temporarily frozen market supply and demand in 2009 but the market showed signs of revival already in 2010. Construction firms are attempting, at all cost, to complete current construction projects, with new initiatives placed on hold.

Within the framework of Anti-crisis Action Plan a series of government initiatives were aimed at stimulating supply and demand in the sector. Government support in the form of loan guarantees and tax subsidies has been provided to ongoing and new construction projects, accordingly. Also, Central Bank initiated the creation of a mortgage fund to stimulate the demand in the real estate market. The government began to provide guarantees to construction firms to take bank loans for the projects with more than 50% completion.

The sector further development prospects are seen as quite favorable in the light of the state support and several planned initiatives. The state purported new massive urban development projects, such as Yerevan City, Mars and Tichina, may serve as a driving force for the market in the long term perspectives. The biggest initiative in commercial property market – Dalma Orchards shopping mall is going to operate from 2011. The mall with a total GBA of 45,000 sq.m. will host high-quality brands and various entertainment facilities.

Investment Opportunities

Comparative advantages	Issues
• Long-term positive demand outlook • Lucrative underdeveloped segments • Large-scale state-purported urban development projects • Government support	• Crisis impact on short-term dynamics • Current unstable situation in the market, low level of transactions • A notable fall in real estate prices for residential space in the beginning of 2009
Investment Rationale	
Development of modern format retail /office real estates, residential construction, infrastructure development	

f. IT and Telecom

Industry Snapshot

	IT		Telecom
Sector size			
Absolute size (output)	$129.9 million		~$551 million
Percent to GDP	1.5%		4.7%
Number of employees	5,190/ 0.47% of workforce		5,500 / 0.5 % of workforce (2007)
Number of users	480,000 (internet users)		Mobile: 3,199,700 (2008) Fixed line: 652,800
Number of players	196		3
Exports	$71.5 million		N/A
Key trends			
Growth Rates	15.5% (CAGR 2006-2009)		28% (2006-2008)
Export Growth	10.3% (CAGR 2006-2009)		N/A
Major players and recent major transactions			
	IT		**Telecom**
Synopsis	Microsoft	Cambric Armenia	Armentel – BeeLine
National Instruments	Virage Logic	Mentor Graphics	K-Telecom – Vivacell-MTS
			France Telecom - Orange

Information Technologies

IT & Telecom is the most (labor) productive sector of the Armenian economy. The Government has declared the IT sector as a priority and is supporting it through various support institutions, such as IT Development and Support Council chaired by PM and Enterprise Incubator Foundation backed by the World Bank funding. The industry already attracted global brands such as Synopsis, which located considerable part of their development functions in Armenia. Currently the industry is comprised of about 196 companies. Most of the foreign owned companies are involved in off-shore programming, serving foreign HQs. The consumption of IT services in Armenia is rising, though from a very low base.

Telecom

Armenian telecom market is fully liberalized. One of the largest Russian mobile operators – Vimpelcom, acquired 90% shares of Armentel (the only fixed line operator in Armenia) from Greek OTE for €340 mln in 2006 and the 10% of the Government's share later. Beeline's fixed line customers are about 600,000, while mobile subscribers are about 750,000.

VivaCell-MTS (mobile operator) started its operations on 1 July 2005 and in quite a short period of time managed to build a strong customer base, currently comprising of 2.2 mln.

France Telecom (under the Orange brand) became Armenia's third mobile operator, paying €51.5mln for a GSM and 3G license in 2008. Only in the first quarter of 2009 the company invested 80 mln USD accounting for about 45% of foreign investments in Armenia in the same period. Until 2011 the company has planned to invest about 260 mln USD.

All of currently operating mobile operators provide 3G services to their subscribers.

Internet services sector is experiencing a rapid growth after the long time stalling due to monopoly position of Beeline. Considerable investment plans are underway to build state-of-the-art data transfer infrastructure. Along with WiFi and WiMax technologies, fiber optic-based backbones are constructed. The entry of mobile operators into the market of internet service triggered the competition in the sector, which, in its turn, resulted in the improving quality, decreasing prices and widening access to the consumption of internet services in Armenia.

Investment Opportunities

Comparative advantages	Issues
• Developing cluster, international companies • Availability of high quality, easily trainable workforce • Availability of good engineering education • Low transportation costs • Government priority, IT incubator, international technical assistance programs	• Education, lagging behind the current requirements • Still underdeveloped telecom infrastructure, high prices and quality • Narrow diversification of international internet access infrastructure

Investment Rationale

High growth, catch-up phase in telecom and ISP sectors, content development for mobile, introduction of new IT services, offshore/outsourcing programming opportunities, possibility to outsource back-end functions from developed markets, etc.

g. Financial Services

Industry Snapshot

Sector size			
Absolute size	~$349.5 million		
Percent to GDP	4.1%		
Assets (Banking)	$3,650 million		
Equity (Banking)	$766 million		
Assets to GDP (Banking)	42.7%		
Loans to GDP (Banking)	23.7%		
Number of employees (Sector)	10,600 /1% of workforce (2008)		
Number of players (Banks)	21		
Key trends – Growth rates (2007 - 2009)			
Assets (Banking)	36%		
Equity (Banking)	33%		
Loans (Banking)	52%		
Major players in banking sectors			
HSBC	ASHIB	ACBA – Credit Agricole	VTB
UniBank	Converse Bank	Anelik Bank	Armeconombank
Areximbank	Ararat Bank	Prometey Bank	InecoBank
Mellat Bank	Armswissbank	AmeriaBank	BTA Invest Bank
ADB	Artsakh Bank	Byblos Bank Armenia	ABB
ProCredit Bank Armenia			

The financial sector is dominated by the banking sector that owns about 90% of the total sector assets. This structure of the financial sector is expected to be significantly changed alongside the development of other segments of the financial sector.

The range of banking services has expanded significantly in the recent years. E-banking is becoming popular and has an increasing share in the provided banking services.

HSBC, which was the only prime international bank, present for the last 10 years with quite limited activities has considerably expanded its branch network, as well as the range of services in 2010.

One of the recent major investment deals in Armenian banking sector was the acquisition of Cascade Bank (former Cascade Capital Group holding) by Ameriabank (Russian Troika Dialog group).

Several years ago the Central Bank created legislative preconditions for establishing thrift institutions like credit organizations, credit unions, etc. Currently there are 33 credit organizations (including leasing) operating in Armenia.

Several legislative initiatives mark possibility of significant changes in other sectors of the financial market, namely insurance, pension and capital markets.

Obligatory car insurance (insurance of civil liability of owners of vehicles) taking effect since January 2011 is expected to double the market for insurance services. In the near future, a series of legal initiatives are planned to elaborate laws on obligatory medical and other types of insurance. Currently, the number of insurance companies operating in the Armenian market is 9 down from 23 in 2005. The decrease was preconditioned by CB regulations and requirements towards the minimum level of chartered capital. Many companies which could not ensure the minimum required level were sold and merged with bigger insurance companies. The majority of the operating companies are of foreign ownership, mainly Russian. According to the current CB policy the number of operating companies along with the market saturation will stabilize at the level of 4-5 players.

Considerable reforms are also being discussed in the areas of pension funds and capital markets. Accumulated system of pension funds is being elaborated in Armenia. Obligatory accumulated pension system is expected to be launched in 2014.

A few large companies are expected to have debt placements in coming years. The market of IPOs have more uncertain prospects of development.

Armenia has national plastic cards payment system – ArCa, established in 2000 with the USAID assistance, currently owned by the Central Bank and commercial banks, which process also Visa and MasterCard.

The Central Bank of Armenia pursues proactive stance to attract international leading banks into Armenia, as well as reshape and upgrade the financial markets. In 2008 the Swedish exchange operator OMX (recently acquired by NASDAQ) acquired the Armenian Stock Exchange (ArmEx) and Central Depository. The Central Bank is also trying to activate insurance market by bringing legislation close to European standards to attract international brands. Commercial banks might also get opportunity to offer limited number of insurance products.

The banking system has a considerable degree of soundness due to relatively well capitalization and conservative credit policy. This allowed it to overcome the first wave of the financial crisis. The long-term expansion possibilities are seen to be quite promising.

Investment Opportunities

Comparative advantages	Issues
• High growth potential of the sector • Availability of high quality workforce • Transparency and accountability • Supportive state policy	• Underdeveloped capital markets • Too strong supervision and anti money-laundering requirements • Risk of increasing the share of non-performing loans due to the crisis

Investment Rationale

Expansion of retail banking, insurance, securities companies and investment banking. Introduction of new services and capturing emerging niches. Investments in non-banking financial institutions.

h. Retail and Trade

Industry Snapshot

Sector size	
Turnover	$1095.4 million
Percent to GDP	12.8%
Number of employees	113,200 / 10 % of workforce (2008)
Number of key players	around 20
Key trends – Growth rates 2007-2009	
Sector	10.1%
Major players and selected recent major transactions	
Trade	Multi Group, Fleet food, Sil Group, Valletta, Punj, Salex, Flash, Mika, CPS
Retail chains	Star supermarkets, SAS supermarkets, Yeritsyan & sons supermarkets, Yerevan City supermarkets, Fresh supermarkets
Shopping centers/malls	Tashir, Rossia, Hayastan, Yerevan City, Hayrenik, Pallas
Electronics	VEGA, AG Electronics, ZigZag, Aray

The growing income levels and improving living standards in Armenia have paved the way for the accelerated growth of the retail sector. The annual retail turnover per capita reached the level of 1378 USD in 2009. Food retail comprises the major share in total retail turnover, illustrating the structure of consumer spending. Building materials, followed by furniture and clothing dominate in the retail of non-food products. Few big players dominate the import of selected food items such as sugar, wheat, as well as petrol and gas distribution.

Yerevan market of commercial real estate has enjoyed an upsurge in supply of shopping space. The non-branded retail has substantially decreased; however, the overall sector remains highly fragmented and is yet at premature stage of development. While the large volume of retail (both food and non food) is taking place in bazaars and small stores with many small players, western type supermarkets and trading centers (malls) are currently taking the lead, prompted by the opportunity of economies of scale and demand sophistication.

The expansion of supermarket chains has been the major consolidating factor of the food retail sector. The sector enjoyed an influx of foreign financing (Star attracted mezzanine funding from EBRD, and SAS acquired a loan from the Black Sea Trade & Development Bank) and application of modern merchandising, procurement and shelving management techniques. Yerevan City and Fresh supermarket chains are rapidly expanding and gaining increasing share in the total retail turnover.

The project of "Dalma Orchards", being developed by the Russian-Armenian owned Tashir Group, is pioneering in the new-generation-format mall. The emerging trend is towards decentralization of shopping centers from the overloaded city center towards suburban areas, such as *Mars* and *Tichina*. A significant pool of pending projects in the Small Center of the city are the redevelopment of former TSUM and establishment of Amiryan Plaza. Quality street retail also enjoys impressive expansion paces, especially triggered by the launch of Northern Avenue and other shopping zones of the city. The retail market lacks the popular format of "do-it-yourself" (DIY) retail. While still there are no large format electronic retails, the plans to establish some are underway.
Noteworthy, the retail sector is significantly vulnerable to the changes in consumer preferences and household consumption patterns. In the result of the economic crisis the structure in the retail sector changed in favor of food products.

Investment Opportunities

Comparative advantages	Issues
• Rapidly increasing local prosperity (may be temporarily interrupted throughout the crisis period) • Increasing consumer awareness and sophistication • Still low level of competition in many segments	• Customs bureaucracy • Lack of modern retail formats • Monopolistic or oligopolistic imports in several segments

Investment Rationale

Creation of modern retail formats with application of modern retail management. Attracting international brands and building chains. Developing niche players with innovative concepts.

i. Health Care

Industry Snapshot

Sector size	
Absolute size[5]	~$313.3 million
Percent to GDP	3.7%
Number of employees	58,957; 5.3 % of workforce (2007)
Number of key players	10
Key trends – Growth rates (2007-2009)	
Sector	19.4%
Major players and selected recent major transactions	
Erebuni Medical Center	multifunctional medical center
Shengavit Medical Center	multifunctional medical center
Republican Medical Center	multifunctional medical center
Nairi Medical Center	multifunctional medical center
Nork Marash Medical Center	cardiology hospital
National Oncology Center	cancer research and treatment center

Health system in Armenia is undergoing state purported development, overall improvement and optimization. The state expenditures within the sector are gradually increasing, with average growth rate of about 20% throughout 2002-2008. The structural optimization of the system has resulted in a great number of mergers of various medical institutions and in the decreasing number of hospital beds. The low affordability of medical services in Armenia predetermines a considerably lower level of primary healthcare consumption, accompanied with high rate of self-medicine, which increases the necessity of inpatient treatment.

The health care system in Armenia is divided into three administrative layers: republican (some tertiary care hospitals and an epidemiological service), regional (hospitals) and municipal/community (primary healthcare service providers). The key players are privatized large hospitals. Among medical directions, heart surgery, therapy, dental and others are developed. Some hospitals (Nairi and Shengavit) have recently considerably upgraded their facilities.

The export of health services is increasing in Armenia. Local hospitals and individual physicians gain increasing authority especially in the spheres of cardio, eye treatment and dental services.

Dental service rapidly expands in Armenia. The effective price/quality ratio attracts many Diaspora Armenians, as well as patients from the region.

Nork Marash Cardiology Center headed by a well known Diaspora cardio-surgeon has become a leading international center for cardio surgery with many patients from CIS and Middle East countries. International assistance (particularly with the Diaspora involvement) and exchanges significantly contribute to the upgrade of skills and introduction of new treatment methods.

Yerevan Medical University has the largest number of international students in Armenia.

The medical insurance still plays a marginal role in health care, while out-of-pocket payments to doctors dominate.

Investment Opportunities

Comparative advantages	Issues
• Regional expansion opportunities in selected areas • Availability of highly professional doctors in selected areas • Advanced medical education • Intense connections with leading clinics in the West through Diaspora • Crisis-resistant nature of the industry	• Low level of medical insurance of local population • Low level of usage of medical services by the local population on per capita basis
Investment Rationale	
Commercialization of existing assets, international expansion.	

[5] Including social service

j. Tourism

Industry Snapshot

Sector size			
International Tourism Receipts	$333 mln (2007)		
Percent to GDP	~3.5%		
Number of players	large number of small players		
Number of visitors	575,281 (2009)		
Key trends – Growth rates			
Sector	26.7% (CAGR 2001-2007)		
Number of visitors	15%(2007-2009)		
Major players and selected recent major transactions			
Golden Palace Hotel	Tufenkian Hospitality	Ani Plaza Hotel	Multi Rest House
Golden Tulip Hotel	Marriott Armenia Hotel	Congress Hotel	Harsnaqar

Tourism is one of the most vibrant industries in Armenia driven by ethnic, culture and historic tourism segments. The gradual improvement of hospitality sector in Armenia has resulted in stable growth dynamics of international tourist arrivals to the country, demonstrating a compound annual growth rate of 19% during 2003-2009. Notably, the sector has grown by 9% in 2008 (compared to 2007).

Besides Yerevan, the following locations are the key attractions in Armenia.

Tsakhkadzor	Four chair lifts were installed and operated by Leitner (Italy), which required some $7 mln investment. Tsakhkadzor is currently one of the most demanded places in Armenia; it attracts tourists and sportsmen from Russia and Europe. The real estate market here is as liquid as in Yerevan; prices for one square meter of land reach $100.
Jermuk	Ski resort and health resort – Jermuk is going to become the second ski resort due to the recent Government project on the establishment of chair lifts in Jermuk. Jermuk is famous with its natural mineral healthy waters and sanatoriums.
Dilijan	Nature and health resort – Dilijan is also developing in recent years. In Soviet times it attracted tourists from other Soviet Republics, the Union of Cinematographs of USSR had its recreation center here.
Lake Sevan	Summer resort – Lake Sevan is one of the most popular summer resorts for Armenians; it's quite close to Yerevan (60 km). A great number of hotels and rest houses, as well as different attractions such as water world, scooters, restaurants are available in Sevan now.

Armenia is famous with its mountains and historical monuments (ancient churches, the first nation to adopt Christianity in 301CE). The food is also very delicious, especially in summer when fresh fruits (apricot, peaches, apples, etc.) and vegetables (tomato, cucumbers, etc.) are available.

Due to several supporting activities undertaken by the Government, such as nationwide celebration of cultural anniversaries, participation in high-class international expos, advertising, establishment of development and information agencies, the country's awareness is increasing, as an emerging cultural tourism destination.

Several state initiatives, such as State Tourism Policy 2007-2030 has set quite bold long-term development targets, based upon the observed development trends within the industry. The policy claims the level of about 3mln international tourist arrivals and 1.5mln in-home tourists to be a realistic target to be reached by 2030.

Tatev Revival Project, implemented by National Competitiveness Foundation of Armenia, is one of the key highlights of Armenian tourism industry in 2010. The project includes several components, namely restoring Tatev monastery, reviving its monastic and scholarly tradition, and developing tourism attractions and infrastructure in the adjacent villages, establishment of the world's longest aerial tramway.

Investment Opportunities

Comparative advantages	Issues
• Growing tourist inflow, especially from Diaspora (expected to be less affected by the crisis) • Availability of well trained workforce • Sightseeing, ski resort, summer resort, excellent weather in Spring and Autumn • Natural advantages, opportunities of developing adventure, nature, ecology tourism • New international airport	• Still high prices for air transport • Regional touristic and transportation infrastructure needs to be developed • Seasonality fluctuations

Investment Rationale

Creation of modern resorts and affordable hotels in country side, business hotels and conference facilities in Yerevan. Developing non-traditional tourism sectors, such as ethno and agro-tourism.

4. Entry points, opportunities and risks

a. Greenfield projects

Greenfield investment projects may be effective in mining, agriculture, real estate, tourism, energy sectors. While the risks are limited here, the major disadvantage might be time, spent on getting state licenses and approvals, as well as recruiting and training the personnel.

b. Minority stakes

Investments resulting in minority stakes may be feasible in high growth businesses in retail, finance, tourism, IT, manufacturing, with transparent and advanced management and proven track of record. The potentially major risks might relate to minority shareholders' rights protection. Management professionalism and integrity, effective corporate governance mechanisms are crucial for the success of such types of investments. In most cases buying a blocking minority (25%+1 shares) is practiced to hedge against possible risks.

c. Majority stakes

While consolidation through acquisition of majority stakes is an option suitable for any sector, it is recommended for construction, retail, mining, manufacturing and tourism. Proper financial and legal due diligence is recommendable to avoid possible risks.

d. Venture projects

As the venture capital financing is very limited in Armenia; the first mover advantage may provide greater benefits to the new entrants through availability of the best innovative sector projects. In addition to the risks specific to this type of financing in Armenia, they will face also with the difficulty of exit through IPOs. On the other hand innovative sectors are less exposed to internal competition and intervention by power groups.

e. Co-investment

This alternative might be quite useful for investments in large real estate developments, such as community development or construction of large scale malls. The major challenge is the choice of the right and reliable partner, development of a legally clear and streamlined structure. Management integrity and professionalism are also key success factors.

5. Exit options

a. Sale to end-users

One-time residential or commercial real estate projects in most cases involve sale of the property to end users and exit from the business, or retain some management and maintenance functions.

b. Sale to strategic investors

This option is suitable for large and attractive stakes in retail, banking, tourism, manufacturing, and mining. This is one of the options EBRD puts in the contract for its Direct Investment Facility.

c. MBO or MBI

It might be possible to sell the business to management. This can be either to existing management (a Management-Buy-Out or MBO) or new management (a Management-Buy-In or MBI). The option is suitable to businesses in any sector. This option will require a combination of bank debt and private equity finance.

d. IPOs

IPO prospects are seen unclear given the turbulence in global financial markets, however, paradoxically the first IPO on Armenian stock exchange was announced in 2009. The entry of OMX into the market as an operator of the stock exchange may create the necessary premises for the creation of the IPO market as the recovery of the economy begins.

6. EV Consulting

a. Identity

EV Consulting is a management advisory firm that serves companies and industries aspiring to move to the next level of competitiveness and innovativeness.
EV Consulting partners with senior executives and business leaders to identify their next development level and carve pathways there. Such partnerships are established in diverse, but critical areas of management challenges – starting from spotting market opportunities, helping raise capital through designing and implementing complex management systems.
EV Consulting enriches its thinking through its research arm - the Economy and Values Research Center's activities (www.ev.am). EV Research Center is a think-tank focused on studying competitiveness. EV is a partner institute of the World Economic Forum's Global Competitiveness Network.

b. Services

EV Consulting strives to transcend traditional disciplinary boundaries of typical consulting approaches. Our core competence includes the following broad practice areas:

Strategy advisory	Designing mid to long-term strategies and strategic plans Comprehensive competitive analysis Scenario planning Crafting and installing strategy execution tools based on Balanced Scorecards methodology Linking strategy to operations through operational dashboards and other tools
Investment advisory	Investment strategy formulation, investment proposals Business plans and feasibility studies M&A advice Business valuation Capital attraction (equity, debt, structured finance) Deal structuring and negotiation support
Marketing advisory	Market research and analysis Commercial due diligence Market entry and expansion strategies Brand positioning by applying Brand Positioning Workshop technique Brand value evaluation and benchmarking Advertising campaign assessment Customer satisfaction and loyalty assessment Sales function optimization Sales forecast methodologies
Organization Design	Designing corporate centers or holding structures for diversified businesses Modeling effective organization structures best suited to company strategies Developing organization culture and motivation metrics Staffing and competence needs assessments

Performance Improvement	Streamline and improve finance function Design and install performance measurement systems Improve planning, budgeting and forecasting systems Streamline and improve marketing function Improve sales force organization, compensation schemes, customer service standards Operational dashboards, instituting efficient operational management processes Training and coaching executives and management staff
Public Policy & Development Advisory	Competitiveness and economic growth analysis and advocacy Cluster and sector analysis and development work Helping governments, international and support organizations craft sector development policies and interventions Economic policy design and advocacy Design of monitoring and evaluation systems, impact assessment of large scale non-commercial projects

c. Clients

EV Consulting serves leading and growing Armenian companies, prospective start-ups, Diaspora investors, as well as international institutional investors. EV Consulting is becoming a key "reference point" for many foreign investors and international organizations for advisory, research and capital attraction functions. We also collaborate with major international financial and development institutions including World Bank, European Bank for Reconstruction and Development and USAID. EV Consulting is especially strong with its wide connections in business community in Armenia and the Diaspora.

d. Consulting highlights

Assignment:	Development of a comprehensive management system on Balanced Scorecard platform, 2009-2010: Long-term strategic advisor to the company
Client:	The leading Armenian dairy and ice cream producer
Description:	Supported the company in developing its long-term strategy and installed a comprehensive strategy execution system of Balanced Scorecards, which allows executing and monitoring the company's strategic results in financial, consumer and operational areas. Helped to develop an integrated sales forecast and budgeting system, retail merchandising, brand architecture and sales force compensation system. Trained and coached key executives in the new system and systems thinking.
Assignment:	Finance sourcing
Client:	Leading Armenian integrated pharmaceutical trader
Description	Supported the company as a financial advisor in attracting 4.4mln euro equity finance from European Bank for Reconstruction and Development aimed at the expansion of modern format retail chain throughout the country and the advancement of its value chain through a state-of-the-art distribution center.
Assignment:	Market Analysis and Brand Benchmarking Studies
Client:	Leading Armenian mobile telecom company

Description:	Research partner of the mobile telecom company. Consults the client on competitive analysis, consumer perceptions and market positioning based on series of intensive benchmarking studies and continuous market monitoring.
Assignment:	Capital Attraction, Investment Consulting
Client:	Leading Armenian pharmaceutical producer
Description:	Acted as a financial consultant to the company that raised 1 mln. mixed financing from EBRD. Developed an investment proposal, advised the company throughout the negotiation process and helped closing the transaction.
Assignment:	High and Best Use Analysis; Advise on Development Options
Client:	Jones Lang LaSalle (Moscow office) – subcontractor to the leading international real estate advisor for a large international property developer;
Description:	Conducted a comprehensive assessment of a major re-development project in Yerevan on a mixed used platform. Analyzed all segments of the property market and advised on best use options. Acted as an exclusive subcontractor to Jones Lang LaSalle.

e. Research highlights

Research:	Global Competitiveness Report (GCR)
Partner:	World Economic Forum
Description:	As a partner institute EV assists WEF in producing GCR and other auxiliary reports such as Global IT Report and Travel & Tourism Competitiveness Report.
Research:	Armenian National Competitiveness Report
Partner:	USAID CAPS program, WEF, Harvard Institute for Strategy and Development
Description:	The Report provides detailed assessment of Armenia's competitiveness stand in the context of regional competition. It provides policy recommendations to the government and business sector.
Research:	IT Industry Growth Model
Client:	World Bank, Enterprise Incubator Foundation
Description:	The report developed alternative scenarios of Armenian IT industry based on econometric models. The report provided policy recommendations for the future growth of the Armenian IT cluster.
Research:	The Role of the Diaspora in Generating Foreign Direct Investments in Armenia
Partner:	Eurasia Foundation with funding from the Carnegie Corporation (New York)
Description:	The study examined the impact of the Armenian Diaspora on generating foreign direct investments in Armenia in 1994-2004. The study presented the role of the Diaspora in emergence of mainly export oriented industries in Armenia.

f. Team

EV Consulting is comprised of people with wide experience, skills and at the same time insight and creativity. The associates have experience in both public and private sectors with backgrounds in economics, business administration and finance. EV Consulting has also developed a wide network of affiliated independent consultants and specialists in different areas whose resources are utilized on case-by-case basis.

Manuk Hergnyan

Managing Partner; Head of Investment & Strategy Advisory Practice

Mr. Manuk Hergnyan is the founding managing partner of EV Consulting and the founding chairman of EV Research Center. Manuk has had consulting experience with the US-based Setrakian Financial Group (head of Yerevan office), Arlex International and KPMG Consulting-Barents Group in Armenia and with Global Investment Union in Russia. He teaches Strategic Management and the Harvard Business School course on Microeconomics of Competitiveness developed by Michael Porter. Manuk holds a Ph.D. from Moscow State University. He has been trained at Cambridge (UK), Harvard (USA) and Central European Universities (Hungary). He is currently pursuing modular EMBA course at Oxford Said Business School (UK). Manuk is certified by the Palladium Group (founded by Drs. Norton and Kaplan) in Balanced Scorecard execution. He is in charge of general management of the company and directly leads key assignments in strategy advice and capital attraction areas.

Sevak Hovhannisyan

Partner; Head of Marketing Advisory Practice

Mr. Sevak Hovhannisyan is leading the Marketing Advisory Practice of EV Consulting and founding board member of EV Research Center. Sevak has been working more than 7 years for international technical assistance projects funded by German, US governments and EU. At EV Consulting he has managed numerous marketing advisory and research assignments for various companies (from a start-up to the biggest taxpayer). Sevak holds a PhD in International Economics from the Yerevan State University (Armenia), and has been trained in management at the Cambridge University (UK), Aachen University of Technology (Germany) and Mercy Corps (Cambridge, US).

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