



# Completion Report

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Project Number: 47265-001  
Technical Assistance Number: 8559  
March 2017

## Armenia: Investment Promotion

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<b>TA Number, Country, and Name:</b> TA 8559-ARM: Investment Promotion			<b>Amount Approved:</b> \$750,000.00	
			<b>Revised Amount:</b> n.a.	
<b>Executing Agency:</b> Ministry of Economy		<b>Source of Funding:</b> TA Special Fund-Others		<b>Amount Undisbursed:</b> \$ 267,225
				<b>Amount Utilized:</b> \$ 482,775
<b>TA Approval Date:</b> 13 December 2013	<b>TA Signing Date:</b> 8 January 2014	<b>Fielding of First Consultants:</b> 8 April 2015	<b>TA Completion Date</b> Original: 31 December 2015    Actual: 31 December 2016	
			<b>Account Closing Date</b> Original: 31 December 2015    Actual: 28 February 2017	
<b>Description</b>				
<p>Foreign direct investment (FDI) into Armenia experienced a decline after the 2008–2009 global financial crisis (from 7.9% of gross domestic product during 2006–2009 to 5.0% during 2010–2013). Asian Development Bank (ADB) approved the technical assistance (TA) to support the government's efforts to attract investors to Armenia and help create jobs and reverse the large trade imbalance. The government was particularly interested in attracting global corporations to bring frontier knowledge and opportunities to integrate Armenian products into global value chains. At the time of TA approval, the Armenian Development Agency—the official investment promotion agency (IPA)—was underperforming in attracting FDI compared with similar countries.<sup>a</sup> The previous major international investment forum for Armenia had been held in 2001.</p> <p>The TA was aligned with ADB's country partnership strategy 2014–2018, under preparation at the time of TA approval. The Ministry of Economy was the executing agency (EA) for the TA and the IPA was the implementing agency.</p>				
<b>Expected Impact, Outcome, and Outputs</b>				
<p>The TA's expected impact was increased net FDI inflows into Armenia. The expected outcome was improved capacity to bring committed investors to Armenia. The expected outputs were (i) investment proposals and promotion materials upgraded, (ii) an international investment forum successfully implemented, and (iii) recommendations for improving the government's economic policy in strategic sectors identified. The IPA was expected to improve its investment promotion competencies by preparing and organizing an international investment forum, which would act as main catalyst of the TA activities. The forum was expected to be a private-sector-oriented event, and would mainly focus on strategic industrial sectors in Armenia that could benefit from foreign investment.</p>				
<b>Delivery of Inputs and Conduct of Activities</b>				
<p>The TA was approved in December 2013 and became effective in January 2014. The TA was mostly implemented from Armenia Resident Mission (ARRM), mainly by the former Country Director, and then was transferred to Public Management, Financial Sector and Trade Division (CWPF) in the Central and West Asia Department upon his departure.</p> <p>The EA's performance was less than satisfactory. There was limited progress in 2014 due to (i) the narrow attention given by the government to the forum as opposed to other more pressing matters, (ii) frequent changes in leadership and counterparts at the Ministry of Economy which limited ownership of the TA, and (iii) a long process of merging the IPA with other agencies into the Development Foundation of Armenia (DFA) which was only finalized in December 2014, when the DFA started acting as the TA implementing agency. Upon ADB's proposal, in September 2014 the Minister of Economy established a steering committee that would oversee the preparation of the forum and composed by government officials, and representatives of the business community and development partners (ADB and the United Nations Industrial Development Organization).</p> <p>The TA included two components, one is for recruiting technical advisors and the other is for recruiting a professional conference organizer (PCO) based on the TOR prepared by the advisors and agreed with ADB. The TA initially envisaged to recruit individual consultants as advisors but the selection method was changed to a firm for efficiency. In August 2014, ADB started recruitment of a consulting firm (investment advisors): after a first unsuccessful tender, the investment advisors were recruited in April 2015.</p> <p>In 2015, the new DFA management and the ADB investment advisors brought renewed momentum to the organization of the forum. Under the direction of a new Minister of Economy (the third during TA implementation), the steering committee rescheduled the forum to October 2016 and changed its location to New York.<sup>b</sup> It also approved the terms of reference for the PCO drafted by the investment advisors. The investment advisors performed well; they (i) developed the work plan for the forum; (ii) selected the sectors of focus and the promising investments to be showcased to investors; (iii) outlined sector presentations, investment guides, teasers for twenty investment projects (in agro, energy, finance, information technology, mining, and tourism), success stories, name and tagline for the forum, and content for the forum's website and marketing materials; (iv) prepared sponsorship packages; (v) galvanized interest of Armenia's business community in the event; and (vi) stimulated the dialogue between the steering committee members and the buy-in from key government officials. In July 2015, ADB started recruiting the PCO: three bid attempts were unsuccessful. During the first selection, one local and three international firms were shortlisted.</p>				

However, only the local firm submitted a technical proposal, which was unfortunately evaluated as non-responsive. Refined terms of reference and more realistic budget accompanied the second selection which attracted technical proposals from five firms. Unfortunately, all were again evaluated as non-responsive. Single-source selection was approved for the third attempt which still failed because no agreement could be reached with the consultant on remuneration. For this reason, in April 2016, the ADB and the DFA agreed to directly procure standardized services from providers based in New York (e.g., venue and audio-visual equipment, food and beverages, security services) and have the DFA taking a larger role in organizing the forum. ADB used the savings to share the direct costs of the forum and sponsor preparatory road-shows of DFA staff to a few financial centers. The Armenia Investment Forum ([www.invest-armenia.com](http://www.invest-armenia.com)) was held on 10-11 October 2016. ADB provided a total of 6 person-months of international consultants and 20 person-months of national consultants. ADB's performance was satisfactory.

### **Evaluation of Outputs and Achievement of Outcome**

Consultants recruited under subcomponent 1 of the TA helped the DFA generate 18 investment proposals and upgrade promotion materials (presentations for seven sectors, an investment guide to Armenia, and website for the forum). The forum was successfully implemented; it was professionally organized and oversubscribed: more than 200 investors and guests attended the forum, including the President of Armenia.<sup>c</sup> At least one letter of intent was signed for a potential investment of up to \$36 million. The sector analysis had few policy recommendations, since they focused on strengths and opportunities, rather than on weaknesses and threats. The consultants did not produce policy papers as envisioned.

TA implementation was constrained by high rotation and weak capacity in the Ministry of Economy and its agencies. Being the first international forum to be organized in a long time, and in a venue far away, definitely posed challenges. Nevertheless, the TA is likely to have improved Armenia's capacity to attract committed investors. Armenia managed to define its story and tell it to investors. The TA increased the visibility of Armenia as a place to invest and exposed some Armenian businesses to global investors, forcing them to think more globally about their businesses. The TA helped the DFA expand its database of investors and investment opportunities, although not to the extent originally envisioned. The content developed under the TA is feeding the new DFA's website established in November 2016. The office of the prime minister is trying to push investment opportunities to prospective investors (e.g., [www.investmentprojects.am](http://www.investmentprojects.am)) while follow-up road shows are being planned for France and other countries this year. As a result of the forum, ADB is considering private sector projects in agribusiness (greenhouse), telecommunications, and information technology.

### **Overall Assessment and Rating**

The TA was *less than successful*. The TA was *relevant* to Armenia's economic challenges and the organization of an international forum was a good catalyst for the country to articulate how to place itself in the global economy. The TA was *less than effective*: the forum was successfully implemented and investment proposals and promotion materials were significantly upgraded, but so far there are limited policy recommendations and actions to improve the business environment. The TA was *less than efficient*: although only 64% of the TA was utilized, the forum was held with a 15 months delay and the short time for its preparation reduced its economic benefits. The TA outcome is *less likely sustainable*: the materials developed under the TA are being used by the authorities and will be useful for the foreseeable future, but a large part of the capacity developed rests with the staff of the DFA where rotation is typically high.

### **Major Lessons**

The initial TA design included the recruitment of a professional conference organizer that would be responsible for organizing the forum. However, due to unsuccessful recruitment and lack of time, the ADB and DFA changed the approach and decided to procure services from providers based in New York and have the DFA play a larger role in the organization of the forum. This decision significantly reduced the costs of the operation and gave the DFA more opportunities for learning by doing, but is likely to have reduced the outreach capacity that a strong conference organizer would have provided. The delay in this decision also reduced the effectiveness of the investor outreach campaign, as the DFA team had limited time to reach out to potential investors and senior executives. Without counterfactual, it is difficult to judge which design can produce better results in the future, but it may be important for ADB to spend more resources in the identification of qualified event organizers to facilitate future recruitment.

### **Recommendations and Follow-Up Actions**

Attraction of foreign investments is influenced by multiple factors and investment promotion plays a small part in this long-term process. The business environment and the security situation play a more important role. The ongoing TA on Industrial Development<sup>d</sup> could prepare the policy papers for sector competitiveness that were envisioned under this TA as a way to guide policy for improvement of the business environment. The DFA should follow up with the investors reached during the forum and use thematic road shows as a more efficient way to do investment promotion between large-scale investment forums that could take place.

<sup>a</sup> The IPA's facilitation performance score was 63% in 2009, against 66% in Moldova and 70% in Croatia.

<sup>b</sup> The other candidates were Frankfurt; Hong Kong, China; London; Paris; Singapore; Tokyo; and Zurich. The selection was supported by ADB investment advisors and based on the following criteria: (i) ease of investor outreach (city as financial center), (ii) presence of Armenian diaspora, (iii) ease of access and cost of living, (iv) proximity to the major export markets, (v) proximity to major equity financing centers or traditional sources of FDI inflows, and (vi) proximity to the headquarters of IFIs active in Armenia. To effect the change in venue, Country Director, ARRM, formally approved a change in implementation arrangement. In March 2016, there was a fourth and last change in the Minister of Economy during TA implementation, which was accompanied by the change of the head of the DFA.

<sup>c</sup> A total of 210 people attended the first day of the event and 220 people attended the second day.

<sup>d</sup> ADB. 2015. *Armenia: Export- and Innovation-Led Industrial Development*. Manila.

Prepared by:

Ruben Barreto

Lyle Raquipiso

Designation and Division:

Financial Sector Specialist, CWPF

Senior Economics Officer, CWPF