Armenia

RISK & COMPLIANCE REPORT

DATE: January 2017

KNOWYOURCOUNTRY.COM

Executive Summary - Armenia	
Sanctions:	OSCE - Weapons
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.)
Medium Risk Areas:	Weakness in Government Legislation to combat Money Laundering World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)

Major Investment Areas:

Agriculture - products:

fruit (especially grapes), vegetables; livestock

Industries:

diamond-processing, metal-cutting machine tools, forging-pressing machines, electric motors, tires, knitted wear, hosiery, shoes, silk fabric, chemicals, trucks, instruments, microelectronics, jewelry manufacturing, software development, food processing, brandy, mining

Exports - commodities:

pig iron, unwrought copper, nonferrous metals, diamonds, mineral products, foodstuffs, energy

Exports - partners:

Russia 19.9%, Germany 11%, Belgium 9.4%, Bulgaria 8.8%, Iran 7.1%, Canada 6.2%, US 6.1%, Georgia 5.9%, Netherlands 5.2%, Switzerland 5% (2012)

Imports - commodities:

natural gas, petroleum, tobacco products, foodstuffs, diamonds

Imports - partners:

Russia 24.6%, China 9%, Germany 6.2%, Iran 5.4%, Ukraine 5.4%, Turkey 4.7% (2012)

Investment Restrictions:

There are no restrictions on the rights of foreign nationals to acquire, establish or dispose of business interests in Armenia.

Contents

Section 1 - Background

Armenia prides itself on being the first nation to formally adopt Christianity (early 4th century). Despite periods of autonomy, over the centuries Armenia came under the sway of various empires including the Roman, Byzantine, Arab, Persian, and Ottoman. During World War I in the western portion of Armenia, Ottoman Turkey instituted a policy of forced resettlement coupled with other harsh practices that resulted in at least 1 million Armenian deaths. The eastern area of Armenia was ceded by the Ottomans to Russia in 1828; this portion declared its independence in 1918, but was conquered by the Soviet Red Army in 1920. Armenian leaders remain preoccupied by the long conflict with Azerbaijan over Nagorno-Karabakh, a primarily Armenian-populated region, assigned to Soviet Azerbaijan in the 1920s by Moscow. Armenia and Azerbaijan began fighting over the area in 1988; the struggle escalated after both countries attained independence from the Soviet Union in 1991. By May 1994, when a cease-fire took hold, ethnic Armenian forces held not only Nagorno-Karabakh but also a significant portion of Azerbaijan proper. The economies of both sides have been hurt by their inability to make substantial progress toward a peaceful resolution. Turkey closed the common border with Armenia in 1993 in support of Azerbaijan in its conflict with Armenia over control of Nagorno-Karabakh and surrounding areas, further hampering Armenian economic growth. In 2009, senior Armenian leaders began pursuing rapprochement with Turkey, aiming to secure an opening of the border, but Turkey has not yet ratified the Protocols normalizing relations between the two countries.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Armenia is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Armenia was undertaken by the Financial Action Task Force (FATF) in 2016. According to that Evaluation, Armenia was deemed Compliant for 18 and Largely Compliant for 17 of the FATF 40 Recommendations.

Key Findings

Armenia has a broadly sound legal and institutional framework to combat money laundering (ML) and financing of terrorism (FT). Armenia's level of technical compliance is generally high with respect to a large majority of FATF Recommendations.

Armenia is not an international or regional financial centre and is not believed to be at major risk of ML. The predicate offences which were identified by the 2014 national risk assessment (NRA) as posing the biggest threat are fraud (including cybercrime), tax evasion, theft and embezzlement. The findings of this assessment indicate that corruption and smuggling also constitute a ML threat. The real estate sector, the shadow economy and the use of cash all constitute significant ML vulnerabilities. Competent authorities have assessed and demonstrated an understanding of some, but not all, ML risks in Armenia.

The NRA concludes that the risk of FT is very low. Although Armenia shares a border with Iran, which is considered by the FATF to pose a higher risk of FT, the evaluation team found no concrete indications that the Armenian's private sector and non-profit organisations (NPOs) are misused for FT purposes. There have never been any investigations, prosecutions and convictions for FT. There is an effective mechanism for the implementation of Targeted Financial Sanctions (TFS). No terrorist-related funds have been frozen under the relevant United Nations Security Council Resolutions (UNSCRs).

The financial intelligence unit (FIU) has access to a wide range of information sources and is very effective in generating intelligence for onward dissemination to LEAs. Law enforcement access to information is somewhat restricted by a combination of issues connected with the legislation dealing with law enforcement powers to obtain information held by financial institutions and law enforcement ability to successfully convert intelligence into evidence. Law enforcement authorities (LEAs) did not demonstrate that they make effective use of FIU notifications to develop evidence and trace criminal proceeds related to ML.

The number of ML investigations and prosecutions has increased in the period under review. However, it appears that LEAs target the comparatively easy self-laundering cases mainly involving domestic predicate offences. One ML conviction (described as autonomous) was secured, although the judiciary appears to have based its ruling on the admission that the predicate offence had been committed. Overall, law enforcement efforts to pursue ML are not fully commensurate with the ML risks faced by the country.

Seizure and confiscation of criminal proceeds, instrumentalities and property of equivalent value are not pursued as a policy objective. It is doubtful whether LEAs are in a position to effectively identify, trace and seize assets at the earliest stages of an investigation, since proactive parallel financial investigations for ML and predicate offences are not conducted on a regular basis.

The banking sector is the most important sector in terms of materiality. Banks understand the risks that apply to them according to the FATF Standards and the AML/CFT Law. However, they have not demonstrated that they have incorporated the risks identified in the NRA into their internal policies. The real estate sector, notaries and casinos pose a relatively higher risk compared to other DNFBPs. Their understanding of risk is limited.

The application of customer due diligence (CDD), record-keeping and reporting measures by financial institutions is adequate. Major improvements are needed by the DNFBP sector with respect to preventive measures.

The approach of the Central Bank of Armenia (CBA) to anti-money laundering/counter financing of terrorism (AML/CFT) supervision is to some extent based on risk. Developments in this area are on-going. Adequate procedures for the imposition of sanctions are in place. However, the level of fines could be improved. The supervision of the DNFBP sector was found to be in need of improvement relative to casinos and notaries, and inadequate relative to real estate agents, dealers in precious metals and stones, lawyers and accountants.

Most basic information on legal persons is publicly available through the State Register. All legal persons in Armenia are required to disclose the identity of their beneficial owners to the State Register upon registration and, inter alia, whenever there is a change in shareholding. Information on beneficial ownership of legal entities is also ensured through the application of CDD measures by banks.

While all the banks understand that they have to apply freezing of funds to proliferation financing and there is an innovative system in place in financial institutions to ensure that matches are detected, there is a concern that the legal framework based on the AML/CFT Law could be open to legal challenge. Coordination between the different competent authorities involved in this area needs to be further developed.

Risks and General Situation

The 2014 NRA identifies swindling, theft, tax evasion, contraband and squandering/ embezzlement as posing the highest ML threat. The General Prosecutor's Office indicated that, from its perspective, the highest risk of ML arises from fraud (including cybercrime), falsifying plastic cards and theft through ICT, embezzlement, theft, smuggling and drug trafficking. This is more or less the view of the FIU and other law enforcement authorities. The evaluation team identified corruption as also posing a ML threat. The level of foreign proceeds introduced into the Armenian financial system could not be determined with certainty, since little information was made available to the evaluation team. However, STR information suggests that attempts to launder proceeds from cybercrime and other ICT-related crime committed outside Armenia are not uncommon. The FMC has procedures in place to monitor cross-border movement of funds with subsequent analysis and comparison with applicable foreign trade indicators. There are no indications that the risk of FT faced by Armenia is any way elevated.

The large majority of funds from and to Armenia flow through the banking sector. In terms of materiality, this sector constitutes the biggest ML vulnerability to the Armenian private sector generally and financial sector particularly. The real estate sector, which involves various DNFBPs, including real estate agents and notaries, is considered to pose a relatively higher risk of ML. Casinos are also vulnerable to ML due to shortcomings in supervision and weaknesses in the application of preventive measures, although the fact that they do not provide certificates of winning (i.e. documentary basis for facilitating the laundering of illicit proceeds) certainly mitigates the potential for their use in ML. The large presence of the shadow economy, the use of cash and financial exclusion create a favourable environment for the commission of economic crime, especially tax evasion and related ML that could possibly detract from law enforcement efforts in detecting crime.

US Department of State Money Laundering assessment (INCSR)

Armenia was deemed a “Monitored” Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Armenia is not an international or regional financial center and is not believed to be at major risk for money laundering or terrorist financing. The 2014 National Risk Assessment identified fraud (including cybercrime), tax evasion, theft, and embezzlement as the most pervasive money laundering threats. Corruption and smuggling are additional issues. The real estate sector, the shadow economy, and the widespread use of cash rather than bank transactions all constitute vulnerabilities. Armenia is not a major drug-producing country and domestic consumption of illegal drugs is modest.

Armenia’s banking sector holds approximately 90 percent of total assets of the financial system. In the non-financial sector, high-value transactions, such as real estate purchases, are believed to be risky. Casinos are legal and regulated by the Ministry of Finance.

The National Risk Assessment concludes that the risk of terrorist financing (TF) within Armenia is low. There are no concrete indications that Armenia’s private sector and non-profit organizations (NPOs) are misused for TF purposes.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:
"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Are legal persons covered: criminally: NO civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:
Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO KYC covered entities: Banks, credit organizations, exchange houses, money and value transfer services; investment companies, insurance companies and intermediaries; pawnshops; real estate agents; notaries, lawyers, accountants, and auditors; dealers in artwork and precious metals and stones; auction organizers; casinos and organizers of games of chance, lotteries, and internet games of chance; trust and company service providers; credit bureaus; the State Cadaster; and the State Registry

REPORTING REQUIREMENTS:
Number of STRs received and time frame: 191: January 1 – November 1, 2015 Number of CTRs received and time frame: 174,037: January 1 – November 1, 2015 STR covered entities: Banks, credit organizations, exchange houses, money and value transfer services; investment companies, insurance companies and intermediaries; pawnshops; real estate agents; notaries, lawyers, accountants, and auditors; dealers in artwork and precious metals and stones; auction organizers; casinos and organizers of games of chance, lotteries, and internet games of chance; trust and company service providers; credit bureaus; the State Cadaster; and the State Registry

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 2: January 1 – November 1, 2015
Convictions: 0 in 2015

RECORDS EXCHANGE MECHANISM:
With U.S.: MLAT: NO Other mechanism: YES
With other governments/jurisdictions: YES

Armenia is a member of the Council of Europe Committee of Experts on the Evaluation of Anti- Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

On June 21, 2014, amendments to the Law on Combating Money Laundering and Terrorism Financing and 14 other laws regulating the AML/CFT framework became law. The law and relevant regulations are meant to ensure a high level of compliance with international standards. The amendments address, among other items, administrative sanctions, prohibition of bearer shares, lowered threshold for reporting cash transactions, asset forfeiture provisions, the identification of predicate offenses for money laundering, and the adoption of a mechanism to freeze terrorist assets. Mechanisms for the implementation of targeted financial sanctions established under the respective UNSCRs have been established.

Most basic information on legal persons is publicly available through the State Register of Legal Entities. All legal persons in Armenia are required to disclose the identity of their beneficial owners to the State Register upon registration and whenever there is a change in shareholding. Information on beneficial ownership of legal entities is also ensured through the application of customer due diligence measures by banks.

The Government of Armenia is gradually increasing the number of money laundering investigations and prosecutions. The Central Bank's Financial Monitoring Center (FMC), the country's financial intelligence unit, has access to a wide range of information sources and generates intelligence for dissemination to both domestic and international counterparts, as necessary.

The government should provide criminal penalties for legal persons involved in money laundering or terrorist financing, require additional scrutiny for domestic politically exposed persons (PEPs), and enhance the capacities of law enforcement authorities to effectively identify, trace, and seize assets at the earliest stages of an investigation by means of proactive parallel financial investigations conducted on a regular basis. Armenia should criminalize tipping off.

Armenian authorities and the FMC should ensure all covered reporting sectors provide mandated financial intelligence reports to the FMC. The government is seeking international assistance to better regulate its activities.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Armenia does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

Criminalised Tipping Off - By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.

EU White list of Equivalent Jurisdictions

Armenia is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Armenia is not considered to be an Offshore Financial Centre

Reports

US State Dept Narcotics Report 2016 (introduction):

Armenia is not a major drug producing country, and domestic abuse of drugs is modest. Because Armenia is landlocked and the two longest of its four borders (with Turkey and Azerbaijan) are closed, the resulting limited transport options make the country less attractive for drug trafficking. With U.S. and European Union assistance, Armenia continues to develop and implement an integrated border management regime, improving its ability to detect illegal narcotics shipments.

International liaison visits were greatly expanded in 2015 as the first-ever Armenian contingent attended the International Drug Enforcement Conference in June, held in Cartagena, Colombia. In May, two representatives from the Republic of Armenia Police (RAP) and two from the National Security Service (NSS) attended a Middle East/Caucasus Multilateral Exchange meeting outside Tbilisi, Georgia, led by the United States. The meeting brought U.S. and counterpart narcotics investigators together to discuss major transnational cases and provided an opportunity for front-line investigators and supervisors to listen to and brief on relevant regional trafficking trends. Armenia also participated in the Collective Security Treaty Organization's Coordination Council to discuss counter-drug strategies with regional partners in October.

In January and February, the United States and NSS coordinated on three cocaine seizures totaling 10 kilograms (kg) at the Yerevan Zvartnots International Airport, and on November 12, Armenian authorities arrested a courier carrying 13kg at the airport, the largest-ever seizure of cocaine in Armenia. The United States facilitated investigative data sharing between Armenian counterparts and 11 different nations in 2015.

The Armenian Police Main Department of Combating Organized Crime reports drug-related crimes were up by six percent over the first nine months when compared to the same period in 2014. Total drug seizures over this period (32.2 kg) were up slightly from the same period in 2014 (24.1 kg) when discounting a record 850 kg heroin shipment seized in January of 2014. By volume, cannabis (10.1 kg) and cocaine (10.1 kg) were the most prevalent drugs interdicted, with seizures of each drug more than doubling from 2014. Most drugs are smuggled in trucks driven across the Iranian border crossing at Meghri.

U.S.-sponsored training included a one-week Narcotics Investigators Course held in Yerevan and a bilateral, one-week Anti-Money Laundering Course in Tbilisi. Law enforcement coordination between U.S. authorities and their RAP and NSS counterparts on drug cases has progressed considerably over the past two years, evolving from what was once simple post-seizure/post-arrest sharing of information to proactive collaboration on joint investigations and has led to historic seizures of methamphetamine, cocaine and heroin within Armenia over the past two years.

US State Dept Trafficking in Persons Report 2014 (introduction):

Armenia is classified a Tier 1 country - is a country whose government fully complies with the Trafficking Victims Protection Act's (TVPA) minimum standards.

US State Department Terrorism Report 2011

Overview: Armenia made progress in improving border security. The Armenian government worked closely with the North Atlantic Treaty Organization (NATO) and other partners to establish and outline responsibilities for a 24-hour Situation Centre within the Armenian Ministry of Emergency Situations. The Situation Centre is intended to assure effective interagency coordination in crisis management, including in response to terrorist attacks.

Legislation and Law Enforcement: In the area of border security, progress included the addition of sensors designed to detect the movement of people and vehicles on the Georgian border. Armenia continued to improve its export control laws and procedures, as well as its maintenance of recently installed radiation portal alarms at all ports of entry, including the main airport. Furthermore, the Defense Threat Reduction Agency reached an agreement to provide support in the form of equipment and infrastructure upgrades along the Georgian border, including border post towers and relay stations, to improve Armenia Border Guard Service communications. The Border Guard Service continued to optimize its use of the automated Border Management Information System (BMIS) at all points of entry, to include a BMIS criminal and terrorist watch list updated by the Armenian National Security Service. The Armenian government planned to update the BMIS and bring all border crossing checkpoints with Georgia up to European Union (EU) standards. The Armenian government began to implement a National Integrated Border Management Strategy, to include a complete re-building of northern points of entry over the next two to three years.

Countering Terrorist Finance: Armenia is a member of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, a Financial Action Task Force-style regional body. Armenia is also a member of the Egmont Group of Financial Intelligence Units. Armenia is not a regional financial centre, and no cases of terrorist financing have been discovered. Within the Armenian Central Bank, a Financial Monitoring Centre analyzed suspicious financial transactions to detect evidence of money laundering and other financial crimes.

Regional and International Cooperation: Armenia participated in several bilateral and multilateral assistance, security, and training organizations and initiatives targeted at strengthening its ability to counter terrorist financing and the smuggling of illicit and hazardous materials. These included: the Global Initiative to Combat Nuclear Terrorism, the Nuclear Smuggling Outreach Initiative, the Biological Threat Reduction Program, and related training programs sponsored by the Organization for Security and Cooperation in Europe and the EU Advisory Group.

International Sanctions

In February 1992, the Organisation for Security and Co-operation in Europe (OSCE) requested that all OSCE participating states should introduce an embargo on 'all deliveries of weapons and munitions to forces engaged in combat in the Nagorno-Karabakh area'. This embargo is still in force.

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	33
World Governance Indicator – Control of Corruption	39

US State Department

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.

Corruption and Government Transparency - Report by Global Security

Political Climate

Armenia is a transitional economy, with construction and services as the two main engines of economic growth. In the May 2012 parliamentary elections, President Serzh Sarksyan's Republican Party won the majority of seats, and in February 2013, Sarksyan was reelected president. OSCE monitors praised the open and peaceful campaign, but voiced concern about the general lack of confidence in the integrity of the electoral process among political parties and the general public. In the February 2013 presidential elections, Serzh Sarksyan was reelected for his second term, with almost 60% of the votes. By the end of February, thousands of protesters rallied against Sarksyan's victory, believing that the election polling was skewed. A number of the reports of voting irregularities were submitted to the police, and the investigation is ongoing, according to a 2013 article by Reuters. The executive enjoys broad discretionary powers, and the lack of judicial impartiality and independence has been criticised by international experts as fostering a culture of impunity and for institutionalising corruption.

Armenia joined the Council of Europe's Group of States against Corruption (GRECO) in 2003. Subsequently, a special council and monitoring committee to fight corruption were established in 2003 and 2004, respectively, with the aim of monitoring the implementation of anti-corruption strategies, which focuses on organisational and legal measures to combat corruption within the areas of banking, taxation, customs, health care, education, environment, licensing, public procurement, public administration, and the judiciary. The 2009-2012 Anti-Corruption Strategy involved the implementation of existing laws and put special emphasis on taxation and customs, as these are areas that are deemed to be most affected by corruption. Other priorities set by the strategy included improvement of legislation and infrastructure to combat money laundering, increasing transparency in the public sector, and enhancement of accountability of all branches of government. However, as reported by the US Department of State 2013, the Anti-Corruption Strategy did not have any significant influence on the level of corruption in the country.In 2012, a new anti-corruption strategy and action plan for 2012-2016 was introduced for the Justice Sector. In addition, an ethics commission for high-ranking officials was established in Armenia. The results of these initiatives remain to be seen. According to an evaluation of Armenia's legal anti-corruption framework, the GRECO Evaluation Report on Incriminations 2011, the 2008 amendments to the country's criminal code were a very positive step, but in order to fully comply with the standards of the Council of Europe's Criminal Law Convention on Corruption, legal provisions need to be further amended. In recent years, the number of high-level officials arrested and convicted on charges of bribery and corruption in Armenia has increased. According to Freedom House 2012, Prime Minister Tigran Sargsyan initiated a series of top-level dismissals in November 2011, focusing on the ministries of agriculture, finance, education, and health.

Widespread and systemic corruption in government bureaucracy, coupled with inconsistent implementation of laws, weaken state institutions and restrict their efficiency. According to a survey published by the Caucasus Research Resource Centre (CRRC) in 2010 cited in the Freedom House 2011, 82% of citizens surveyed report that corruption is a very serious problem in the country. In Transparency International's Global Corruption Barometer 2013, 43% of the respondents believe that corruption has increased in the past two years, and 16% believe that corruption has slightly decreased. The most corruption-prone public institutions remain public officials and civil servants and the judiciary. More than two-thirds of the respondents believe that the police and the medical and health care services are affected by corruption. A 2013 report published by the European Commission on the Implementation of the European Neighborhood Policy in Armenia, points out that despite the adoption of certain important legal acts, such as the Law on Procurement, and Law on Public Service, fulfilment of obligations from the GRECO, OECD, and other international bodies, as well as increased number of arrests and indictments of corrupt officials, there have been no positive changes in the perception of corruption by the Armenian population.

Business and Corruption

A 2013 report by the European Commission emphasises that the business climate in Armenia suffers largely from corruption, which negatively influences the level of competition among companies. Despite the government's adoption and implementation of anti-corruption strategies, corruption remains an obstacle for foreign business operations in Armenia, as emphasised by a number of sources, including the US Department of State 2013 and the World Economic Forum Global Competitiveness Report 2012-2013. For a small, landlocked country like Armenia, corruption threatens to discourage both domestic and foreign investor confidence, even though investment policies in Armenia are among the most liberal in the Commonwealth of Independent States (CIS).

In Armenia, government and business elites are strongly interlinked. For example, according to the Bertelsmann Foundation 2012, many of the commodity-based sectors, such as energy and banking, have become monopolised by alliances between political and business elites. These 'closed' sectors contribute to the lack of transparency and accountability of the government. Also Freedom House 2013 reports that the key industries in Armenia remain in the hands of oligarchs and influential elites, who receive preferential treatment in the early stages of privatisation. Similarly, US Commercial Service 2012 evaluates the relationships between high-ranking government officials and the emerging private business sector as encouraging influence peddling. According to this source, powerful officials at the national, district or local level acquire direct, partial or indirect control over emerging private companies. Such control is exercised through a hidden partner or through majority ownership of a prosperous private company. This involvement can also be indirect, through close relatives and friends. These practices encourage the creation of monopolies or oligopolies and distort the fight for increased transparency in the private sector.

Among business executives surveyed in the World Economic Forum Global Competitiveness Report 2012-2013, corruption is identified as the most problematic factor for doing business in Armenia. Similarly, the World Bank & IFC Enterprise Surveys 2009 reports that almost 40% of the surveyed companies consider corruption a major constraint to their operations and 16% expect to make informal payments to 'get things done'. Correspondingly, according to Transparency International's Global Corruption Barometer 2013, corruption within the business and private sector is perceived to be widespread, with more than half of all respondents believing that the sector is affected by corruption. The US Department of State 2013 notes that licencing processes is an area where corruption thrives. Given a political environment rife with corruption, business executives surveyed in the Global Competitiveness Report 2012-2013 reveal that the level of public trust in politicians is low. Companies are recommended to develop, implement, and strengthen integrity systems and to conduct extensive due diligence when planning to invest and when already doing business in Armenia.

Regulatory Environment

Corruption is institutionalised in Armenia and permeates through all levels of government, including the regulatory bodies. Despite some recent reform efforts targeting the civil service, corruption within these structures remains a serious challenge. Public administration is highly bureaucratic and often functions with arbitrary implementation. In order to reduce bureaucracy and decrease the opportunities for corruption, one-stop shops have been established for citizens and companies to reduce face-to-face encounters with public officials. In addition, several governmental internet portals have been launched to make the regulatory processes more transparent. The government eased several processes for businesses, including better investor protection and the elimination of fees for registering a company. The one-stop-shop for registration, improvements in contract enforcement, more efficient procedures for dealing with construction permits, and improved trade across borders have had a generally positive impact on foreign investment, as reported in the 2013 report and 2012 report on Implementation of the European Neighbourhood Policy in Armenia. Salaries of civil servants have been raised in recent years and training has been undertaken to raise awareness among public officials about corruption. Nevertheless, companies continue to report that they encounter a high volume of demands for bribes. According to Freedom House 2013, bribery and nepotism are reported to be common among government bureaucrats, and government officials are rarely prosecuted or removed for abuse of office. Similarly, in Transparency International's Global Corruption Barometer 2013, more than two thirds of Armenian households perceive public officials to be corrupt, and this category is considered to be among the most corruption-prone sectors in Armenia.

Armenian business regulations lack transparency in their implementation. By law, government officials are banned from engaging in business activities, but in practice they often have extensive business interests, and many parliamentary deputies run companies on the side, according to the US Department of State 2011. Similarly, the Law on the Disclosure of Property and Income of government officials is easily circumvented, since the financial statements of these officials are not verified by tax authorities. According to the US Department of State 2011, a few years after the adoption of this law, it still remains unclear to what extent government officials with high incomes comply with the law. Furthermore, the selective and non-transparent application of tax, customs, and regulatory rules, as well as the weak enforcement of court decisions, increase the opportunities for corruption. In general, SMEs believe that it is necessary to have personal connections with public officials, in order to run a successful business. Companies surveyed in the World Economic Forum Global Competitiveness Report 2012-2013 identify tax regulations and inefficient government bureaucracy to be among the most problematic factors for doing business after corruption. This is supported by the World Bank & IFC Enterprise Surveys 2009, in which companies report that senior management spends more than 10% of its time each year dealing with requirements of government regulation.

The Law on Foreign Investment protects foreign investors against land nationalisation, expropriation, and confiscation, except in cases of state emergency. In these cases, the Constitution provides for a compensation paid in advance. According to the US Department of State 2013, many Armenian courts suffer from low levels of efficiency, independence, and professionalism, and there is a need to strengthen the country's judiciary. The Law on Commercial Arbitration (2007) provides investors with a greater number of options for resolving their commercial disputes. By law, disputes may be brought before any court, provided that the Armenian government is not a party to the dispute. The Economic Court was abolished in 2008, and a new specialised administrative court was established to hear, among others, commercial disputes. The Law on Arbitration Courts and Arbitration Procedures provides rules for the settlement of disputes by arbitration. Armenia is a signatory to several international conventions regulating the mutual acceptance and enforcement of foreign arbitration, including the New York Convention 1958 and the Washington Convention 1965. Access the Lexadin World Law Guide for a collection of laws in Armenia.

Section 3 - Economy

After several years of double-digit economic growth, Armenia faced a severe economic recession with GDP declining more than 14% in 2009, despite large loans from multilateral institutions. Sharp declines in the construction sector and workers' remittances, particularly from Russia, led the downturn. The economy began to recover in 2010 with 2.1% growth, and has grown even faster in the three years since then. Under the old Soviet central planning system, Armenia developed a modern industrial sector, supplying machine tools, textiles, and other manufactured goods to sister republics, in exchange for raw materials and energy. Armenia has since switched to small-scale agriculture and away from the large agroindustrial complexes of the Soviet era. Armenia's geographic isolation, a narrow export base, and pervasive monopolies in important business sectors have made it particularly vulnerable to the sharp deterioration in the global economy and the economic downturn in Russia. Since August 2011, Armenia has experienced a sharp currency depreciation. Armenia has only two open trade borders - Iran and Georgia - because its borders with Azerbaijan and Turkey have been closed since 1991 and 1993, respectively, as a result of Armenia's ongoing conflict with Azerbaijan over the separatist Nagorno-Karabakh region. Armenia is particularly dependent on Russian commercial and governmental support and most key Armenian infrastructure is Russian-owned and/or managed, especially in the energy sector. The electricity distribution system was privatized in 2002 and bought by Russia's RAO-UES in 2005. Natural gas is primarily imported from Russia but construction of a pipeline to deliver natural gas from Iran to Armenia was completed in December 2008, and gas deliveries expanded after the April 2010 completion of the Yerevan Thermal Power Plant. Armenia's severe trade imbalance has been offset somewhat by international aid, remittances from Armenians working abroad, and foreign direct investment. Armenia joined the WTO in January 2003. The government made some improvements in tax and customs administration in recent years, but anti-corruption measures have been ineffective and the economic downturn has led to a sharp drop in tax revenue and forced the government to accept large loan packages from Russia, the IMF, and other international financial institutions. Amendments to tax legislation, including the introduction of the first ever "luxury tax" in 2011, aim to increase the ratio of budget revenues to GDP, which still remains at low levels. Armenia will need to pursue additional economic reforms and to strengthen the rule of law in order to regain economic growth and improve economic competitiveness and employment opportunities, especially given its economic isolation from two of its nearest neighbors, Turkey and Azerbaijan.

Agriculture - products:

fruit (especially grapes), vegetables; livestock

Industries:

diamond-processing, metal-cutting machine tools, forging-pressing machines, electric motors, tires, knitted wear, hosiery, shoes, silk fabric, chemicals, trucks, instruments, microelectronics, jewelry manufacturing, software development, food processing, brandy, mining

Exports - commodities:

pig iron, unwrought copper, nonferrous metals, diamonds, mineral products, foodstuffs, energy

Exports - partners:

Russia 19.9%, Germany 11%, Belgium 9.4%, Bulgaria 8.8%, Iran 7.1%, Canada 6.2%, US 6.1%, Georgia 5.9%, Netherlands 5.2%, Switzerland 5% (2012)

Imports - commodities:

natural gas, petroleum, tobacco products, foodstuffs, diamonds

Imports - partners:

Russia 24.6%, China 9%, Germany 6.2%, Iran 5.4%, Ukraine 5.4%, Turkey 4.7% (2012)

Banking

Armenia's economy is still cash-based. Most retail transactions are in cash. The large role of remittances and reliance on foreign partners has increased the significance of bank transfers. The use of debit and credit cards is increasing as the network of Automatic Tellers (ATMs) and point-of-sale (POS) terminals expands. Armenian banks provide a range of standard banking services, including bank transfers, lending programs, corporate deposit accounts, plastic card operations, trade finance (including LOC, collections and guarantees) as well as trust operations, dealer/broker transactions and others.

Section 4 - Investment Climate

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/.

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*	2013 2012	No data 3.9	2013 2012	No data 1	(BEA) click selections to reach. • Bureau of Economic Analysis

U.S. Dollars, stock positions)	2011 2010 2009	24.2 17.8 22.5	2011 2010 2009	1 1 1	• 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*

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

Legal system:

Civil law system

International organization participation:

ADB, BSEC, CD, CE, CIS, CSTO, EAEC (observer), EAPC, EBRD, FAO, GCTU, IAEA, IBRD, ICAO, ICC (NGOs), ICRM, IDA, IFAD, IFC, IFRCS, ILO, IMF, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, MIGA, NAM (observer), OAS (observer), OIF, OPCW, OSCE, PFP, UN, UNCTAD, UNESCO, UNIDO, UNIFIL, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

Armenia does not currently have exchange controls governing exchange rate

Treaty and non-treaty withholding tax rates

https://www.cba.am/EN/SitePages/Default.aspx

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	**Medium Risk**	**Higher Risk**
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD PKF International)

DISCLAIMER

Part of this report contains material sourced from third party websites. This material could include technical inaccuracies or typographical errors. The materials in this report are provided "as is" and without warranties of any kind either expressed or implied, to the fullest extent permissible pursuant to applicable law. Neither are any warranties or representations made regarding the use of or the result of the use of the material in the report in terms of their correctness, accuracy, reliability, or otherwise. Materials in this report do not constitute financial or other professional advice.

We disclaim any responsibility for the content available on any other site reached by links to or from the website.

RESTRICTION OF LIABILITY

Although full endeavours are made to ensure that the material in this report is correct, no liability will be accepted for any damages or injury caused by, including but not limited to, inaccuracies or typographical errors within the material, Neither will liability be accepted for any damages or injury, including but not limited to, special or consequential damages that result from the use of, or the inability to use, the materials in this report. Total liability to you for all losses, damages, and causes of action (in contract, tort (including without limitation, negligence), or otherwise) will not be greater than the amount you paid for the report.

RESTRICTIONS ON USE

All Country Reports accessed and/or downloaded and/or printed from the website may not be distributed, republished, uploaded, posted, or transmitted in any way outside of your organization, without our prior consent. Restrictions in force by the websites of source information will also apply.

We prohibit caching and the framing of any Content available on the website without prior written consent.

Any questions or queries should be addressed to: -

Gary Youinou

Via our Contact Page at KnowYourCountry.com