

Armenian Business Review

FORUM

winter **2001**

Armenia Ranks 68th in
Economic Freedom
in 2000

An Expert
for the Organization
for Security and Co-operation
in Europe Considers
the Armenian Economic
Situation Difficult
but not Hopeless

**The Energy
Sector
of Armenia
Requires
Investments**



IFC

International Finance Corporation
A Member of the World Bank Group



The International Finance Corporation Pledges Assistance Package

The International Finance Corporation Intends to Implement Investment Programs in Armenia

The International Finance Corporation (IFC) has been looking at investment opportunities in Armenia since summer 1999. However, the IFC's analysis of private sector projects confirmed, that as a general rule, most of the more attractive investment opportunities in Armenia are in the small and medium enterprise sector. The following initiatives will establish two financial intermediaries in Armenia that will enable IFC to finance smaller projects and develop the small and medium enterprise (SME) sector through financial intermediaries or other means rather than through direct investment.

Activities aimed at the establishment of a venture fund in Armenia have already been launched. A feasibility study has been commissioned by IFC to analyze the need of the establishment of the SME Investment Fund in Armenia. The study was done by the US Shorebank Advisory Services Inc. Several private and institutional investors and foundations have expressed interest in becoming an investor in the fund. IFC and Shorebank are currently structuring the fund and identifying potential investors. The final decision about the establishment of the fund and its structure is pending to final approval by the IFC board of directors. The total value of the fund will also be determined based on market demand, the

participants, and the managing company. As a rule, IFC funds large projects ranging from \$10 million USD to \$100 million USD. In the case of Armenia, the IFC project would total not less than \$6 million USD. Along with the determination of the venture capital fund structure, the technical plans for implementing transactions will be clarified.

A second large-scale project will be the establishment of a leasing company in Armenia. Subject to lease would be any industrial equipment and/or other products that are in demand in the Armenian marketplace. In November 1999 IFC and United Nations Industrial Development Organization (UNIDO) undertook a study on Armenian leasing legislation considering further opportunity to establish a leasing company with partial equity financing from IFC. The study outlined several legal issues to be solved in the current Armenian statute to facilitate the legal environment for financial leasing. Similar to the previous project, market opportunities for the leasing company and the status of current legislation are under consideration. Necessary amendments in the relevant legislative framework are scheduled to take place in the first half of 2001. Parallel discussions are underway with number of foreign and local banks to be potential partners in the company.



Another investment program is the reconstruction and renovation of the Hotel Armenia. International Finance Corporation is also considering a \$3.6 million USD equity investment in the hotel. Negotiations are being conducted with the hotel owners, AK Development, an American Company that purchased 80% stake in Hotel Armenia for \$8 million USD in August 1999. As a rule, the IFC acts as a passive investor when its shares do not exceed 25% of the share capital of the companies.

In addition to investment projects, the IFC provides technical support in the form of consulting and training. Beginning in March of 1999, the IFC offered a Corporate Governance Project aims to create a better investment climate in Armenia by improving corporate governance practices and increasing the quality and transparency of the legal and regulatory environment.

As part of its economic reform program, on January 1, 1999 Armenia has adopted a new Civil Code that takes important steps to establish the necessary legal framework for economic development. Privatization process is underway.

Despite having taken important steps in the private sector development, Armenia has difficulty attracting foreign investments. One of the reasons is the low level of investor confidence. Poor corporate

governance practices, lack of transparency and management accountability hinder the investment potential of Armenian companies.

The goal of IFC's Corporate Governance Project in Armenia is to develop a better investment environment by bringing improvements in corporate governance practices and legislation in Armenia, more specifically, through: training managers, directors and shareholders of Joint Stock Companies, Government officials and other relevant parties on corporate governance; developing a Corporate Governance Manual that serves as a "How to" - type guide for establishing good corporate governance practices; advising the Armenian Government on improvements to corporate governance legislation; building links between Armenian, Dutch and other foreign companies through meetings on corporate governance and the investment environment in Armenia.

To-date, the Project has published the Manual on Corporate Governance, trained more than 275 Armenian Joint Stock Companies, established strong relationships with the private sector and Armenian Government counterparts, and has made significant progress in achieving its objectives. In 2001, the IFC Armenia Corporate Governance Project will select several enterprises and help them to corporate governance in their companies.



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