

# Foreign Direct Investment Sector Scan Tourism in Armenia

Armenia Investment Policy and Promotion / Agribusiness  
Project

IN COOPERATION WITH



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## 1. Executive Summary

**This report was produced at the request of Armenia’s Ministry of Economic Development and Investment (MEDI) to identify subsectors within the tourism sector that hold potential for FDI and could contribute to its economic development.** It also determines the key policy, regulatory and institutional barriers limiting FDI in the tourism sector.<sup>1</sup> The report is produced by Armenia Investment Policy and Promotion, Agribusiness, and Tourism Project which is implemented by IFC, a member of the World Bank Group in partnership with Austria’s Federal Ministry of Finance. The IFC Project supports Armenia’s efforts at modernizing its investment policy and promotion framework in order to increase exports, jobs, productivity and domestic value addition. Its development is coordinated with the Tourism Committee, the Armenian Tourism Development Foundation and Business Armenia which hold mandates related to Armenia’s tourism policy and investment promotion.

**Globally, the growth of the travel and tourism sector outperforms that of other economic sectors, showcasing its resilience in the face of global geopolitical uncertainty and economic volatility.** The sector contributed US\$7.6 trillion to the global economy (10.2% of global GDP) and generated 292 million jobs (1 in 10 jobs on the planet) in 2016. The industry has almost twice as many women employers as other sectors and accounts for 30% of world services exports, and the largest export category in many developing countries.<sup>2</sup>

**Given these potential benefits, the key question for Armenia’s policy-makers is how it can develop the sector and what role FDI could play in boosting its growth.** Shortage of capital is a major obstacle for tourism development in many developing and transition economies which are increasingly looking for FDI to help develop the sector. Aside from capital, FDI could serve as a potentially transformative force for Armenia’s tourism. As suggested by global statistics, it could be a source of jobs, including for women, as well as a conduit for skills, technology, and international market knowledge that are unavailable domestically; it could help to upgrade Armenia’s offer for international tourists, such as by improving introduce higher hospitality standards and skills for its work force.

**However, Armenia has a limited track record for FDI in tourism.** While precise data on FDI in tourism in Armenia is lacking, according to fDi Markets from the Financial Times,<sup>3</sup> the country recorded only three greenfield projects in the sector from January 2003 to the present time with a value of US\$50.7 million. There are several reasons for this, including the lack of sufficient prioritization of the sector by the Government, the existence of some important investment climate barriers which limit its growth (the “tourism product”) and limited investment promotion efforts targeting prospective international investors (the “tourism promotion”). Regional competition stemming from Georgia and other countries further accentuates challenges in attracting FDI to the country and emphasize a strong need for a more proactive and targeted reform and promotion effort by the Government.

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<sup>1</sup> This is the second report produced by the WBG, following an agribusiness FDI sector scan report submitted in 2017.

<sup>2</sup> The Travel & Tourism Competitiveness Report 2017, World Economic Forum.

<sup>3</sup> The database tracks greenfield investment announcements around the globe and provides an indicator of investor interest across countries.

**The successful attraction of tourism FDI requires that the Government puts significant efforts into improving all of the key areas of an effective policy and promotion framework for investment, including its investment strategy and promotion, as well as investment climate areas affecting investment decisions.**

**First, the identification of priority subsectors<sup>4</sup> represents the key starting point of a good practice strategy or a plan for attracting tourism FDI.** The report utilizes the WBG sector scan methodology and identifies a list of “ready to go” and “aspirational” subsectors for proactive targeting, based on their potential value-add to Armenia (‘desirability’) and their relative attractiveness to investors (‘feasibility’):

- *“Ready to go subsectors”* identified through this analysis are: hotels, specifically 3 and 4-star hotels in Yerevan and hotels of all types outside Yerevan; booking and reservation services, specifically with regard to technological companies; and air transport, with a focus on European airlines. Based on the ‘ready to go’ sectors identified, key source markets that have demonstrated high numbers of FDI projects in recent years to Armenia and competitors are USA, Germany and the UK.
- *“Aspirational’ subsectors”* with FDI potential are winter infrastructure, especially linked to hotels and ski resorts; and performing arts, spectator sports and related museums, historical sites, and similar. The latter group encompasses products that align with target tourist segments, such as wine, adventure tourism, religious tourism, and industrial tourism. However, it is important that the government focuses on a small number of investor product opportunities, rather than attempting to proactively target too wide a range within this group.

A number of additional sectors were also examined, and listed in their entirety in Table 2, however, initial examinations did not highlight the same potential of the above referenced “ready to go” and “aspirational” subsectors.

**Second, once the Government makes a final choice on the short list of priority subsectors, it should commit to enhancing the efficiency and effectiveness of its national investment promotion efforts.** The attraction of FDI will require a concentrated effort to define Armenia’s value proposition articulating its numerous competitive advantages for investment in each of these subsectors. This report provides a draft of such value propositions for further elaboration of the Government. Next, it requires highly targeted investment promotion services including marketing, information, assistance, and advocacy for international investors. The relevant investment promotion agency, in the case of Armenia, Business Armenia, would need to adopt an appropriate operational model that underscores the importance of proactive targeting in priority subsectors defined in this sector scan so as to better align available resources and capacity with the new focus on the promising subsectors. Establishing clarity of roles and institutional arrangements amongst Business Armenia, the Tourism Committee, Armenian Tourism Development Foundation with regard to the implementation of the new strategies highlighted in this report will be necessary to ensure a

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<sup>4</sup> The report focuses on subsectors for tourism investment, thus categories like MICE/Business tourism are the categorizations one would use for defining types of *tourism* not subsectors of investment. Such types of tourism would involve multiple investment subsectors (MICE tourism involves accommodation, bookings, etc. – which are the focus of this report). This typology is explained further in the methodology.

good practice coordinated institutional framework for investment promotion in the sector. Otherwise, the recommendations of the sector scan will not lead to the final and most important part, which is implementation.

**Third, enhancing Armenia's tourism product requires addressing several important policy and regulatory barriers, which go beyond the mandate of MEDI and Business Armenia.** The key priority issue is limited tourism infrastructure, especially concerning domestic and international connectivity. Armenia does not have well maintained roads connecting cities to the capital or well developed domestic rail systems (which also lack international connectivity), and international flights to the country arriving from the Western Hemisphere or from Europe face difficult flight schedules and infrequent routes. The golden age of sector expansion globally has been driven by ambitious low-cost carriers, which are building hubs in major cities, benefiting from FDI, taking advantage of technology interventions and increasing regional connectivity. Availability of skilled human capital relevant for the tourism sector is another important barrier with cross-sectoral affects, in part due to the limited number of well-regarded tourism training providers that are training any significant quantity of staff, and in part due to the country's difficulty in retaining skilled labor. Without improving the offer to FDI, efforts at promotion will not bear fruit. The report provides a detailed description of these and other barriers, and recommendations on how to improve Armenia's tourism product

**Finally, the experience of successful tourism FDI destinations, including some of Armenia's competitors, suggest that these barriers can be successfully overcome if they receive a sufficient level of prioritization by the relevant Government agencies.** First, this requires reforms, second it requires placing tourism foreign investment promotion at the heart of the tourism development approach, such as in the form of an investment promotion action plan for tourism as suggested in this report, but also sufficient financial commitment to ensure marketing spend towards tourists, thus creating demand for investors to exploit. A sustainable tourism industry in Armenia requires that marketing to tourists, goes hand-in-hand with marketing to tourism investors.

## 2. About this Report

This report summarizes the findings from extensive research and analysis, together with a scoping mission to Armenia from May 21-25, 2018<sup>5</sup>. It has the following key objectives:

- To evaluate and filter key priority activities within the tourism broader sector and define a **list of subsectors and/or products**. Carry out an in-depth evaluation on their likelihood to attract high volumes of FDI with significant benefits for Armenia in terms of job creation, value addition, domestic linkages development, skill and technology transfer, and export volumes (“FDI promotion potential”). For those priority subsectors identified, to articulate a compelling value proposition, potential geographic target markets and a high-level investment promotion plan. The report uses the WBG FDI sector scan methodology for this purpose.
- To identify **regulations and policies** which are constraining private sector investment in each subsector/product and which, if adjusted, could make the analyzed subsectors ripe for investment promotion. The report uses an investment competitiveness framework tailored to the tourism sector to identify the constraints.
- To provide an overview of the current and potential future tourism **investment promotion roles** of the various Government stakeholder institutions. The report draws on international good practices in investment promotion institutional set-up.
- To provide a guide of how the findings of the report should develop into an overall action plan for **tourism investment promotion**, and to ensure the systematic and effective implementation.

The sections after this section (2) comprise the following:

- **Section 3** provides information on the drivers for FDI in tourism, and FDI trends in the sector both globally and in Armenia.
- **Section 4** provides a sector scan of Armenia’s tourism sector. In particular, it seeks to define priority subsectors for proactive targeting, based on a robust methodological framework.
- **Section 5** defines a set of value proposition marketing messages for priority subsectors, together with priority targets markets for winning investment.
- **Section 6** gives a detailed summary of the barriers that foreign investors in tourism currently face, based on a structured competitiveness framework.
- **Section 7** outlines the currently mandated roles for key government

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<sup>5</sup> The team met with 25 stakeholders, including foreign and domestic investors, private sector associations, as well as relevant public agencies. Further consultations took place by telephone after the mission. For a full list of consultations, see Appendix 5.



tourism institutions, and where the role of tourism investment promotion may sit going forward.

- **Section 8** gives an overall set of recommendations across the three key aspects of this report: priority subsectors and markets; barriers for FDI; government institution roles and action plan development for tourism investment promotion.

A set of appendices provide additional information on some of the sections describe above.

## 2.1. Armenia’s Strategy for the Tourism Sector

In 2017, tourism attracted 1.5m overseas tourists to Armenia, a growth of 19% on the previous year, with year on year growth averaging 14% since 2007, but with some volatility<sup>6</sup>. The scale of the industry is shown in the figure below, together with ambitions for growth by 2020. Moreover by 2030, the target of the *Tourism Strategy for Armenia 2007- 2030* is to welcome 3 million international tourists that add an estimated US\$3 billion to the Armenian economy, and have 22,300 people directly employed by the industry. A range of tools have been put forward to achieve these targets, although policy and promotion of FDI has not so far been a sufficient part of this<sup>7</sup>.

**Figure 1: Tourism Figures and Objectives<sup>8</sup>**



Despite this growth, average tourism receipts earned per visitor have been declining from 2005 to date, which suggests that the tourism product may not be improving in quality and variety, as tourists are not finding enough to spend their money on<sup>9</sup>. Hence to grow the industry, further commercialization will need to take place across the tourism value

<sup>6</sup> National Statistics Service. In 2015, there was a 1% decrease in tourists.

<sup>7</sup> Tourism Strategy for Armenia 2007 – 2030, Prepared for the Ministry of Trade and Economic Development. Specific activities outlined were: Prioritize and develop tourism products and regions; Prioritize target markets; Destination branding & effective and targeted promotion; Improve accessibility and transportation; Improve infrastructure; Higher quality accommodation, food outlets & tourism services; Research & workforce development; Develop and promote health, safety & standards; Improve destination management, business and investment environment.

<sup>8</sup> State Tourism Committee Presentation – Your Next Business Destination, 2018

<sup>9</sup> IBRD project appraisal document on a proposed loan in the amount of US\$55 million to the republic of Armenia for a local economy and infrastructure development project, December 1, 2015

chain, and one way of supporting this will be through a greater attraction of FDI. Most of existing tourism businesses in Armenia are small or medium-sized enterprises that are limited in their ability to invest significantly in the industry. Indeed, the current level of public and private sector investment into the tourism industry is very low compared to other destinations in the region<sup>10</sup>. As an example, travel and tourism investment in 2017 was US\$109m Armenia, but in Georgia it was US\$176m<sup>11</sup>. In this context, it is important that the Armenian government is effectively able to target foreign investors. Moreover, there are a range of potential benefits specifically related to the attraction of FDI, described on the next section.

## 2.2. Potential Impact of FDI

FDI as well as non-equity modes of investment (NEMs, one example being management contracts in hotel chains) have the potential to be a transformative force for Armenia's tourism sector. The different forms FDI could take in Armenia are referenced in the figure 2, "Defining FDI in Tourism for Armenia." It could be a source of additional capital, quality jobs, skills, technology, and international market knowledge that are unavailable domestically; it could help to upgrade Armenia's productivity, and introduce higher standards for labor. For example, foreign investors and operating companies can help bring international experience in reaching higher hospitality standards, improve training and management and help Armenia's ability to attract tourists through better links, such as other international tour operators<sup>12</sup>.

**Figure 2: Defining FDI in Tourism for Armenia**

Foreign direct investment (FDI) is an investment made by a company or individual (including diaspora) in one country in business interests in another country – either in whole or in part - in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company. FDI is defined as direct investor's ownership of 10% or more of the voting power in the direct investment enterprise.

FDI in Tourism might typically take a number of forms:

- A greenfield corporate investment, the most commonly targeted by Investment Promotion Agencies (IPAs) and where most available international data exists.
- Other corporate investment types such as a merger, acquisition, joint venture, or partnership.
- Non-equity forms of investment (NEMs) such as management contracts or franchises. Examples of this would include international operators such as Hyatt hotels, Hertz car rentals, or Subway food chains.
- Public Private Partnerships (PPPs), whereby a project involves investment from both the government and a private investor. This is typically for large-scale infrastructure-related investment, which is of particular relevance in the tourism sector.

Globally, evidence is supportive of the potential of FDI to create jobs, which is important for Armenia as the country aspires to employ 22,300 people in tourism by 2030 according the strategy. Europe's travel and tourism sector, for instance, accounts for 9.2% of GDP (considering indirect and induced effects) and directly employs 13.9 million people. Similarly, in Spain, greenfield investment projects in tourism created more than 5,000 jobs in the past 10 years and 745 between 2012 and 2015.

<sup>10</sup> Tourism Strategy for Armenia 2007 – 2030, Prepared for the Ministry of Trade and Economic Development

<sup>11</sup> World Travel & Tourism Council: Economic Impact Reports 2018

<sup>12</sup> World Bank: Global Investment Promotion Best Practices - Winning Tourism Investment, 2013

NEMs can also be a key target for upgrading the tourism sector, and can generate trillions of dollars in sales annually (\$2 trillion in 2010)<sup>13</sup>. NEMs include investments like franchising, licensing, management contracts, and other types of contracts (manufacturing, services outsourcing), some of which are common for tourism – like management contracts used by major hotel groups. Eight of the 10 largest hotel groups use management contracts to operate globally (see figure below).

**Figure 3: Use of Management Contract by Hotel Groups<sup>14</sup>**

Group	Home economy	Number of rooms	Estimated hotel system sales	Estimated hotel system employment	Internationalization (Per cent)	Franchising (Per cent)	Management contracts (MC) (Per cent)	Total sales MC	International employment MC
IHG InterContinental Hotels Group	United Kingdom	647 161	18 700	335 000	90	74	25	4 701	75 786
Marriot International	United States	618 104	19 691	300 000	20	53	45	8 860	27 00
Wyndham Hotel Group	United States	612 735	7 169	315 970	25	96	1	47	519
Hilton Hotel Corp.	United States	587 813	18 757	303 118	17	69	26	4 885	13 082
Accor	France	507 306	10 083	261 603	75	24	22	2 208	42 728
Choice Hotel International, Inc.	United States	495 145	6 538	145 000	15	100	-	-	-
Starwood Hotel & Resorts Worldwide	United States	308 736	12 260	159 206	43	39	52	6 323	35 353
Best Western International	United States	308 477	6 931	145 000	39	100	-	-	-
Carlson Hotels Worldwide	United States	159 756	4 844	160 000	55	65	21	1 017	18 541
Hyatt Hotels Corp.	United States	127 507	5 124	130 000	30	16	53	2 716	20 376
<b>Total top 10 hotel groups</b>	-	<b>4 372 740</b>	<b>110 101</b>	<b>2 254 898</b>	<b>41</b>	<b>68</b>	<b>22</b>	<b>30 760</b>	<b>233 488</b>

Franchise or management contract agreements, like Hilton, Avis, or Burger can bring numerous benefits to Armenia’s private sector, including:<sup>15</sup>

- Professional management;
- International service;
- Quality standards;
- Comprehensive training and skills development;
- Destination branding;
- Extended sales and marketing reach through established loyalty programs and distribution networks.

Potential FDI opportunities in any sector or subsector, however, need to be assessed carefully and consider both, (a) attractiveness of value proposition for investors, and (b) the value that can be generated for Armenia. This report finds a limited track record for FDI in tourism in the country, suggesting that the sector’s value proposition for foreign investors so far has been limited, while investment climate barriers also limit its growth. This is due to a combination of factors, which include a lack of government prioritization on the industry including limited government spend on marketing, the quality of infrastructure, and air transport access. These and other barriers are addressed within later sections of this report.

<sup>13</sup> UNCTAD World Investment Report, 2011

<sup>14</sup> Ibid

<sup>15</sup> World Bank, Investment Climate, “Global Investment Promotion Best Practices, Winning Tourism Investment,” December 2013.

### 3. Tourism FDI in Armenia

This section provides a background on existing FDI in tourism into Armenia.

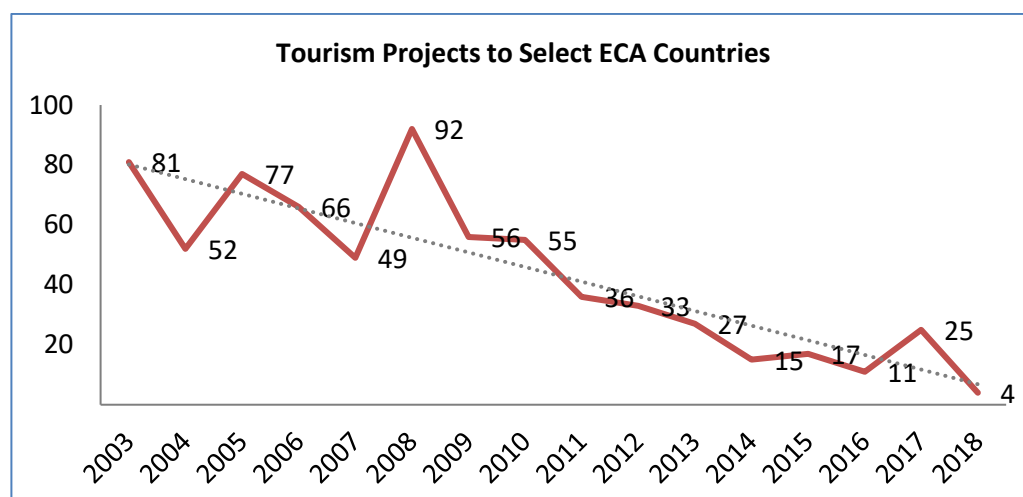
#### 3.1. Tourism FDI Trends Globally and in Selected ECA Countries

Apart from a peak in 2008, FDI in greenfield tourism investment projects globally have been relatively stable (as demonstrated below), but the same cannot be said for the select Eastern European and Central Asian (ECA) countries<sup>16</sup> where the decline is evident. Thus, globally there is strong competition for tourism investment, and this is especially true for Armenia and its neighboring Caucasus and Eastern European countries. For Armenia this means that to successfully attract tourism investment, in a climate where there are fewer greenfield FDI investors, it must be more competitive across all areas, from its tourism product, promotion of the product, governmental strategy and implementing institutions.

**Figure 4: Number of Greenfield FDI Projects in Tourism, Globally, 2003-18<sup>17</sup>**



**Figure 5: Number of Greenfield FDI Projects in Tourism, Select ECA Countries, 2003-18<sup>18</sup>**



<sup>16</sup> The list of select ECA countries is Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia FYR, Malta, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey, Ukraine

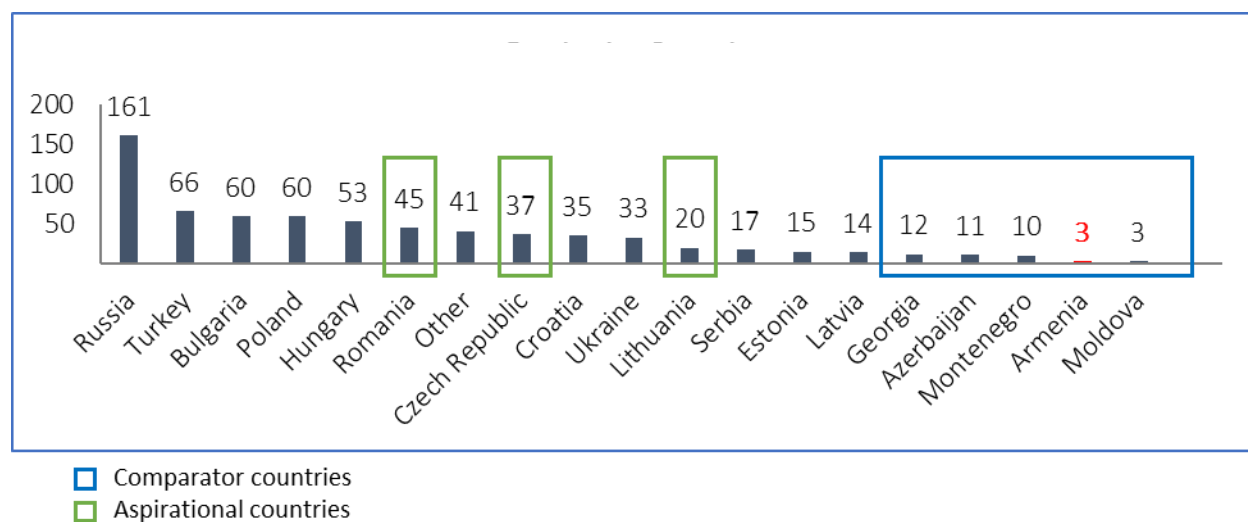
<sup>17</sup> fDi Markets from the Financial Times. The 2018 data is year-to-date.

<sup>18</sup> fDi Markets from the Financial Times. The 2018 data is year-to-date.

According to the fDi Markets database, Armenia recorded only three greenfield investment projects in the sector from January 2003 to the present time (with total capital investment estimated at \$50.7 million), but the most recent tourism related investment project was over 10 years ago. With a wider definition of tourism (i.e. to include transportation), this can be extended to five projects. By comparison, Georgia has received 10 tourism sector investment projects over the same time, totaling over a billion dollars (estimated). While the database does not capture all projects and is therefore likely an underestimate, it does provide an indication of relative attractiveness.

The chart below demonstrates the challenge that Armenia faces in comparison to other select ECA countries. Georgia, Azerbaijan, Montenegro and Moldova are selected as comparator countries because they are either regional neighbors or have similarly low levels of tourism FDI. Romania, Czech Republic, and Lithuania are selected as examples of aspirational countries from the EU because they have higher levels of tourism FDI, and in some cases, face similar characteristics (e.g. Czech republic and Romania are landlocked, Lithuania is a small economy). Despite the low numbers, Armenia has, up until this point undertaken limited reforms to improve its tourism offering.

**Figure 6: Number of Greenfield FDI Projects by Destination Country, 2003-18<sup>19</sup>**



While the above demonstrates the challenge for Armenia in attracting greenfield tourism investment, the importance of other forms, like NEMs, should not be underestimated. Armenia has received some such investments – the Marriot and The Alexander hotels serve as examples, and continuing to target such NEMs could be an important aspect of the country’s tourism investment attraction strategy, and a channel for improving standards and building skills in hospitality.<sup>20</sup>

<sup>19</sup> fDi Markets from the Financial Times

<sup>20</sup> It should be noted that the specific issue areas and interests of NEMs vary from other forms of FDI. For instance, while it depends somewhat on the actual business model, a NEM business will be more interested than foreign direct investors in restrictions to contractual arrangements, licensing legislation, enforcement of contractual rights and the protection of intellectual property. Legislation, for example, that is related to the operation in the host country is only indirectly of interest to a foreign NEM firm, as the viability of the business model depends also on the success of a local partner.

Moreover, mergers & acquisitions, public private partnerships (PPPs), and high net worth diaspora also represent potential investor opportunities. While international comparative data on these forms of investment is difficult to obtain, the limited scale of Armenian greenfield tourism investment (an estimated US\$50.7 million) and the limited national FDI figures (estimated in Armenia at US\$6.93 billion over the last 15 years compared to US\$15.45 billion in Georgia or US\$62.12 billion in the Czech Republic) suggest Armenia is also capturing relatively little tourism investment of these other forms.<sup>21</sup> In conclusion, the available data on FDI and NEMs in Armenia's tourism sector suggest that the country has not been able to fully leverage its potential to attract and grow FDI or NEMs.

The following sections attempt to assist the GoA in changing this by examining the different subsectors where Armenia has potential to better capture investment, and the barriers that the country faces in obtaining such investment. Key issues identified include a need for further development of the tourism product and increased marketing, but these barriers are discussed in detail later in the report.

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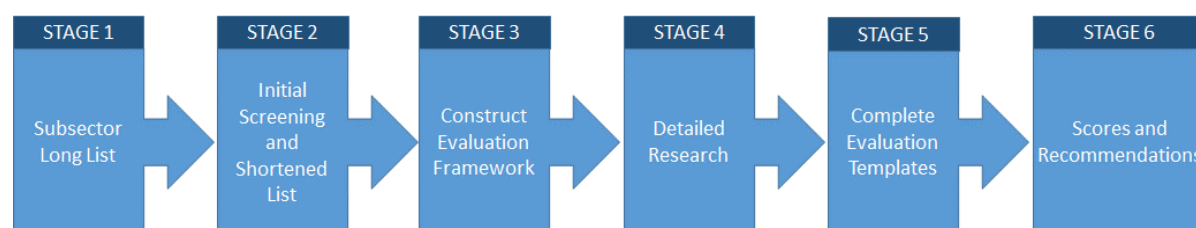
<sup>21</sup> fDi Markets from the Financial Times.

## 4. FDI Sector Scan

In response to the challenges described above, the GoA seeks to undertake an FDI sector scan, to identify priority subsectors for tourism investment promotion. It is good practice in investment promotion to focus on specific sectors in which a value proposition can be readily articulated. The scan is the first step towards investor targeting - the outcome of the sector scan is to provide the GoA with the analytical evidence needed to prioritize sectors, develop value propositions, ultimately leading to an investment promotion plan for proactive targeting of potential foreign investors. This section describes the methodology for identification, together with results and recommendations. Further detailed analysis is provided in the appendices.

### 4.1. Methodology Overview

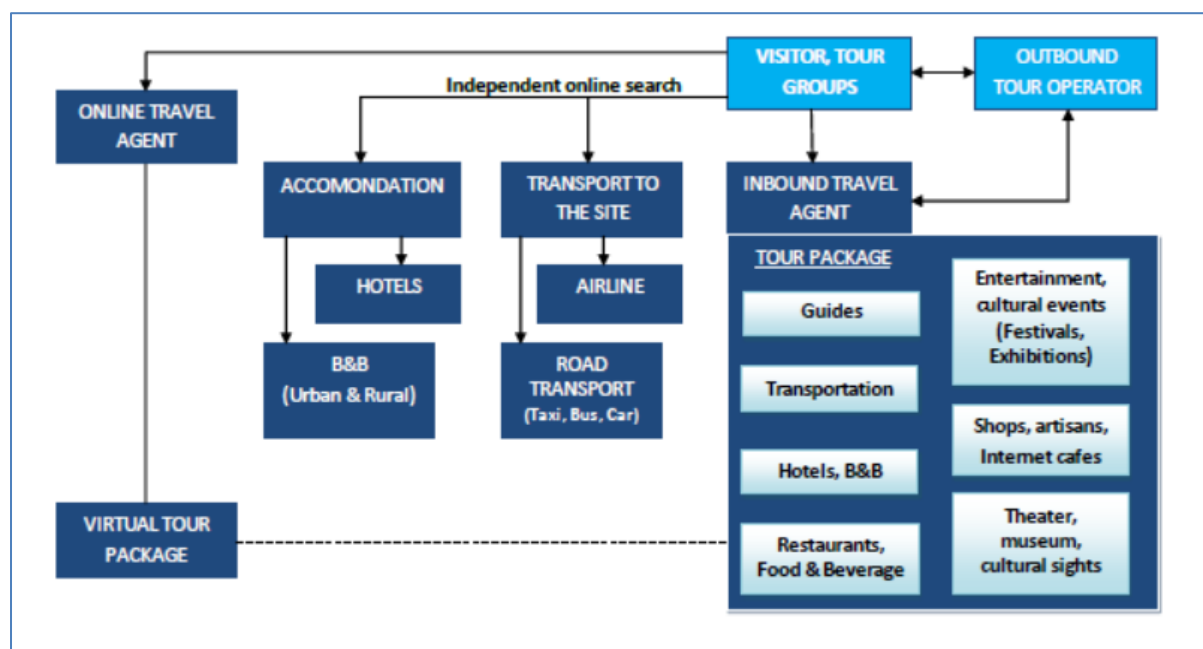
This “sector scan” applies several levels of investigation and analysis to assess and filter priority activities or subsectors within the wider tourism sector for economic development. It looks in detail at Armenia’s context to assess the potential of different tourism related activities to attract FDI. It investigates subsectors and validate findings during discussions and engagements with key stakeholders (which include private sector players and the GoA itself as a key player in the FDI space) to arrive at an objectively ranked list of Armenia’s most competitive subsectors and/or activities for FDI promotion within the tourism industry. The methodology is shown in the six-stage process below:



#### 4.1.1. Stage 1 – Subsector Long List

A long list of 21 potential subsectors for analysis were identified within 5 segments, based on desk research of how the tourism industry value chain is typically defined (see diagram below).

Figure 7: Diagram of the Tourism Value Chain<sup>22</sup>



These subsectors were presented to, and agreed on, with the GoA during May 2018.

#### 4.1.2. Stage 2 – Initial Screening and Shortened List

The long list was further narrowed from the screening of the 21 subsectors based on findings from consultations, which considered whether the subsector could provide FDI value for Armenia, or be attractive for a potential foreign investor.

For example, in discussion with the Tourism Committee, there was limited interest in attracting foreign investors in restaurants. This is then supported by the table below, which shows that restaurants often tend to be a domestic investment from an individual or small firm. Based on this approach, other subsectors were also discarded given their likelihood to be mainly from small domestic investors (this process is fully articulated in table 2, which shows which subsectors were selected for the full analysis). The remaining eleven subsectors in the subsequent table below were selected for full analysis<sup>23</sup>.

<sup>22</sup> USAid Enterprise Development and Market Competitiveness Project Final Report, December 2014

<sup>23</sup> This does not mean that subsectors not included do not play an important industry role, but the role is likely to be covered by domestic companies. Other subsectors that were considered for inclusion included tour operators and holiday representatives. In 2014 the World Bank conducted a survey and ran three workshops with tour operators (Source: Armenia: South Corridor Tourism Development Strategy, March 2015). However, while international tour operators playing a role in Armenia tourism would be valuable, there is little evidence that this would see such operators actually establishing a presence in the country. There is no FDI data available on tour operators. Therefore, any opportunity here is more likely to lie with domestic tour operators collaborating with international operators to provide higher end tourism services, as opposed to FDI projects.



**Table 1: The broad spectrum of tourism investors<sup>24</sup>**

<b>Investment Category</b>	<b>Sponsor</b>	<b>Project Example</b>	<b>Project Size (\$US)</b>	<b>Operator</b>
Domestic	Small firm / individual	Guesthouse, travel agency, restaurant	<1 million	Owner as operator
Domestic	Diversified existing business	Hotel, resort, airport, marina, golf course	1-50+ million	Owner as operator or looking for international or domestic operator
Foreign	Small firm/ Individual	Boutique hotel, restaurant, activity center (such as diving)	1-5 million	Owner as operator
Foreign	Hotel group	Hotels (3 – 5*)	20-100+ million	Owner as operator or looking for international operator
Foreign	Private equity funds, sovereign wealth funds, developers	Hotels, mixed-use developments, transport, ground operations, entertainment, meetings, incentives, conferences, and exhibitions (MICE) facilities, resorts	50-200+ million	likely already identified operator, or may be looking for one

<sup>24</sup> Based on World Bank: Global Investment Promotion Best Practices - Winning Tourism Investment, 2013

**Table 2: Screened List of Subsectors**

No.	Segment	Subsector	Proceed to Full Analysis?
1	A. Accommodation and Catering	Restaurants	NO
2		Hotels	YES
3		Other Accommodation	NO
4	B. Ancillary Service Provision	Bookings / reservations	YES
5		Car hire	NO
6		Currency exchange	NO
7		Tourist information and guiding services	NO
8		Other supporting services / suppliers	YES
9	C. Tour Operations and Travel Agencies	Tour operators and holiday representatives	NO
10		Travel agents	NO
11	D. Transport	Air	YES
12		Rail	YES
13		Road	YES
14		Sea	NO
15	E. Visitor Attractions	Performing arts, spectator sports, & related	YES
16		Amusement & theme parks	NO
17		Gambling industries	NO
18		Other amusement & recreation industries	YES
29		Museums, historical sites, & similar	YES
20		Natural attractions	YES
21		Winter infrastructure	YES

#### 4.1.3. Stage 3 – Construct Evaluation Framework

The evaluation framework has two dimensions based on reference of international promotion agencies and additional World Bank research:

- **Desirability:** Does FDI in the subsector have the potential to meet Armenia’s long-term economic and social development objectives and deliver benefits in terms of investment capital, growth, job creation and better income opportunities.
- **Feasibility:** Does the subsector represent realistic market opportunities given Armenia’s attractiveness and competitiveness as a location for investment relative to alternative location options.

Each of the 11 subsectors is measured against these dimensions by considering a set of questions which are given a score between 1 and 5, with accompanying quantitative and qualitative evidence. There are 11 questions in the ‘Evaluation Template’ below, divided between the two dimensions. Hence the maximum score possible for a subsector is 55, and the minimum is 11. As a principle, the priority subsectors for promoting FDI should be always

those that offer the most value to Armenia and the most value to investors, i.e. those that score highly on both dimensions.

**Figure 8: Sector Scan Evaluation Template**

<b>DESIRABILITY: Will additional FDI in this subsector add value to Armenia?</b>			
<b>Qu</b>	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	1-5	Quantity & quality of existing tourism offer, SMEs and investors already operating in the sector; impact of new investors on local SMEs in the subsector
2	Will new investors create additional jobs? Will investment contribute to job generation among women?	1-5	Potential jobs generated by new investments in the subsector, in particular among women
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	1-5	Improved opportunities for domestic firms to supply their tourism service to foreign investors and improved incomes generated by new investments in this subsector
4	Will new investors create increased export revenues or reduce imports?	1-5	Potential export revenues or reduced imports generated by investments in the subsector
5	Will new investors improve the performance of the value chain as a whole?	1-5	Potential impact on other parts of the value chain
<b>SUBTOTAL</b>		5-25	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>FEASIBILITY: Does investment in this subsector offer an attractive proposition for foreign investors?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>			
6	Is the local and regional market attractive?	1-5	Demand, supply & price trends in Armenia and neighboring countries
7	Is the global market attractive?	1-5	Demand, supply & price trends in major global markets
<b>Does Armenia offer COMPETITIVE supply conditions for investors in this subsector?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	1-5	Availability of climate, attractions, etc.
9	Does Armenia have competitive infrastructure?	1-5	Availability and cost of power, transport, etc.
10	Does Armenia have competitive skills & supportive services?	1-5	Availability & productivity of suitable workforce and supporting services
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	1-5	Absence of regulatory or institutional barriers that might deter investors or hinder their performance
<b>SUBTOTAL</b>		6-30	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			

#### 4.1.4. Stage 4 – Detailed Research

To complete an Evaluation Template for each subsector, a research exercise was conducted to compile evidence to answer each of the 11 questions. Two forms of evidence were used: qualitative data (from consultations), and quantitative data (i.e. estimates of jobs to be created, international rankings, values of export opportunities).

#### 4.1.5. Stage 5 – Complete Evaluation Templates

Following the compilation of available data, each Evaluation Template was completed, including a score and short explanation. The eleven evaluation templates are provided in appendix 1.

#### 4.1.6. Stage 6 – Scores & Recommendations

In Stage 6, overall scores across subsectors were compiled, with recommendations developed, as described below.

### 4.2. Subsector Scores

The table below represents the compiled scores of Evaluation Templates across the eleven subsectors. The color-coding helps to demonstrate areas of particular strength, in each subsector, with a score of 5 in green, and a score of 1 in red. Totals for both Desirability and Feasibility are provided, together with an overall score and subsector rank for each subsector<sup>25</sup>. To use Hotels as an example:

- **Scores 21 for Desirability**, with most indicators suggesting FDI in the subsector would add ‘positive’ or ‘very positive’ value to Armenia, including scores of 4 for extra jobs and female employment, 5 for firms’ income/suppliers, and 5 for impact on value chain.
- **Scores 20 for Feasibility**. Indicators of the demand for hotels in the region and globally are ‘very positive’, while the attractiveness of Armenia in the subsector based on different factors such as infrastructure and skills is either ‘neutral’ or ‘negative’.
- Overall, the subsector **scores 41 out of 55**, and is **ranked 1<sup>st</sup>** among the 11 subsectors, with a clear gap in terms of the score to the next highest scoring subsectors, despite some weaknesses on the feasibility side.

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<sup>25</sup> The analysis above assumes that each factor above is seen as having equal importance to the overall prioritization. In reality, at least for the attractiveness factors, their importance will vary between sectors. For example, in ICT, skills will normally be of most importance, whereas for logistics, infrastructure may be of most importance. For the tourism sector, it tends to be the demand factors that are arguably most crucial to the investor decision – they want to be sure there is an existing market of tourists (questions 6 and 7), while factors such as business environment or natural resources are secondary. If questions 6 and 7 are weighted relatively more important, the rankings in the table slightly change (in particular, Winter Infrastructure’s ranking slightly declines). However, there are no fundamental shifts that affect overall conclusions.

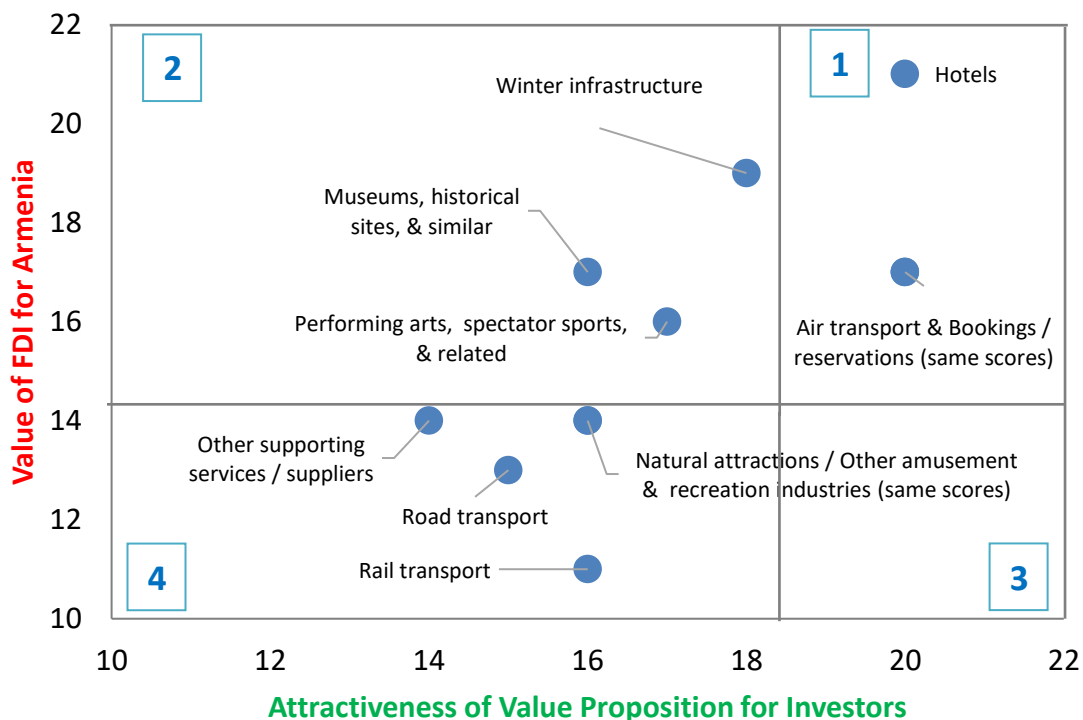
**Table 3: Summary of Subsector Scan Assessment Matrix**

	DESIRABILITY - Value for Armenia					SUBTOTAL	FEASIBILITY - Value Proposition for Investors						SUBTOTAL	TOTAL	RANK
	1	2	3	4	5		6	7	8	9	10	11			
Subsector	Lack of existing investors	Extra jobs / female employ.	Firms' income/ suppliers	Trade balance	Impact on value-chain		Local market	Global market	Natural assets	Infrastructure	Skills & services	Business environment			
Hotels ✓	3	4	5	4	5	21	5	5	3	2	2	3	20	41	1
Bookings/reservations ✓	4	3	4	3	3	17	4	4	3	3	3	3	20	37	2
Other supporting services / suppliers	3	4	3	2	2	14	2	2	3	2	2	3	14	28	9
Air ✓	5	2	5	3	2	17	4	4	3	3	3	3	20	37	2
Rail	4	1	2	2	2	11	3	3	3	2	3	2	16	27	11
Road	4	2	2	2	3	13	2	2	3	2	3	3	15	28	9
Performing arts, spectator sports, & related ✓	2	3	4	4	3	16	3	3	3	2	3	3	17	33	5
Other amusement & recreation industries	2	3	3	3	3	14	2	2	3	3	3	3	16	30	7
Museums, historical sites, & similar ✓	3	4	4	3	3	17	2	2	4	2	3	3	16	33	5
Natural attractions	2	2	4	3	3	14	2	2	4	2	3	3	16	30	7
Winter infrastructure ✓	4	4	3	3	5	19	3	3	4	2	3	3	18	37	2

The results of these scores can also be depicted in the diagram below, where for each quadrant:

- **Quadrant 1:** “Ready to Go” subsectors that rank as both beneficial for Armenia and profitable for investors
- **Quadrant 2:** “Aspirational subsectors” that rank as beneficial to Armenia but investors may be less likely to choose the country in the absence of specific reforms.
- **Quadrant 3:** Subsectors that offer attractive opportunities for investors, but add relatively less value for Armenia
- **Quadrant 4:** Subsectors that offer less attractive opportunities for investors, and add less value for Armenia<sup>26</sup>.

**Figure 9: Output Framework for Selecting Priority Subsectors**



### 4.3. Descriptions of Priority Subsectors

Good practice in investment promotion is for an IPA to target a small number of sectors and subsectors<sup>27</sup>. So it is recommended 3-5 be prioritized for proactive targeting. This does not

<sup>26</sup> Note that this is a relative comparison of subsectors, hence it is not suggested that a subsector in quadrant 4 has zero value as investment, or has zero value proposition to investors. If all 21 subsectors were included, some subsectors shown here would likely move to the right and upwards on the diagram.

<sup>27</sup> In fact, Estonia targets just one sector, ICT, albeit with various subsectors underneath that: <https://investinestonia.com/business-opportunities/>

mean that investors in other subsectors are not supported, simply that pipeline development here is reactive. Discounted subsectors were those that based on this framework, would add relatively less value to Armenia, or would be less attractive to foreign investors, or both. Hence, based on the above analysis, the following are recommended for active promotion:

#### 4.3.1. Hotels – READY TO GO

The opportunity has two key areas. The first is in 3-4 star hotels in Yerevan, although a number of new hotels have recently become operational including the Ibis and Courtyard by Marriott, and a Holiday Inn that will be open in December 2018. Hence the scale of the opportunity should be verified by occupancy data, which is currently unavailable to the GoA. At the same time, as the volume of tourists increase across the industry, Yerevan will remain the major hub and therefore need to have sufficient rooms to accommodate this increase, including during peak season / major events. FDI in these types of hotel chains in Armenia has already reached US\$500m<sup>28</sup>, which demonstrates the potential value from attracting further investment and the rank of the subsector among the ‘ready to go’ opportunities for investment promotion.

The second opportunity is in hotels outside of Yerevan, and this may be at a range of sizes and standards. Small hotels are a priority as room shortages, especially during the May-June and September-November high seasons are common<sup>29</sup>, even for small groups<sup>30</sup>. With more accommodation options, parts of the country have an opportunity to be further opened up to tourism, thus adding value across the value chain. However, it will be important that such new investments, particularly into rural locations, are complementary to, rather than crowding out local guesthouses and B&Bs.

In consultations, several tour operating companies suggested that there may also be a case for more resorts and themed hotels (e.g. near a monastery, inside a cave, in an industrial setting, etc.) based on requests that they frequently receive from clients. Essentially these types of hotels would themselves be an attraction. There are few higher end hotels outside the capital, with the Hyatt Place in Jermuk as the only international brand hotel in South Corridor destinations. While smaller hotels may be the focus outside Yerevan, these larger hotels or resorts can also act as anchor investments, and a hub for other tourist infrastructure to be built around it<sup>31</sup>.

Targeting of FDI in hotels may involve greenfield, but also NEMs, where the international brand (e.g. Hilton, Marriott) is the operator of the hotel. NEMs can be a way of mitigating political risk for foreign investors because they do not entail equity ownership by an investor and allow circumventing certain obstacles to the entry and operation of FDI. NEMs do, however, have some specific requirements that need to be considered in a policy and legal framework. In particular, the GoA would need to focus its information provision on factors such as contractual arrangements, licensing legislation, enforcement of contractual rights and

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<sup>28</sup> Other existing chains include Best Western, Ibis, Doubletree Hilton, and Crowne Plaza.

<sup>29</sup> Armenia: South Corridor Tourism Development Strategy, March 2015

<sup>30</sup> Armenian Adventure Travel Association Rural Adventure Centers in Armenia, May 2017. One potential cause for this could be that legally guesthouses can have no more than 10 beds.

<sup>31</sup> Facilitating Large-Scale Tourism Resorts in Mozambique: The Tourism Investment Generation Approach, IFC, 2012

the protection of intellectual property. In greenfield, an investor may consider additional factors such as selecting a site for development, construction, etc.

Hotels represent the largest subsector in terms of regional and global FDI opportunities in tourism, create more jobs than most other subsectors on average (246 per project globally), and generate export revenues at US\$146m<sup>32</sup> in 2016. They also offer substantial opportunities for suppliers, including catering, linens, furniture, hotel fit out, etc., together with other aspects such as HR resourcing. While there has been strong growth in the number of hotels in Armenia (13% year on year growth from 2012-16)<sup>33</sup>, there are some barriers that may lend to further hotel investment. In particular, the quality of transport infrastructure is a challenge, particularly in rural areas. Hence the GoA would need to work with hotel investors to ensure that adequate road access is available to potential hotel sites and from them to local attractions. Moreover, existing hotels can find it is difficult to recruit and retain suitably qualified staff, both in customer service and management roles. Strengthened efforts on skills development specific to the needs of hotels are important, both in Yerevan and outside the capital.

#### 4.3.2. **Bookings / reservations – READY TO GO**

This subsector provides a general opportunity to attract investors with technology solutions, and one that can complement Armenia's targeting of the ICT sector. It is an ancillary to the tourism sector. The traditional forms of booking agents, i.e. through 'main street' shops, are still quite common in Armenia, but online solutions for tourists are growing in importance. The types of companies that might be targeted in this subsector could include Expedia (i.e. booking flights, hotels, etc.), Uber (ride sharing bookings), and BCD Travel (corporate travel management, with an existing office in Azerbaijan).

The scale of opportunity is evident in that online travel sales first equaled offline sales as long ago as 2007, and now play a vital role in the management and organization of tourism, including electronic reading of passports, audio guides, online box offices, satellite navigation, smart cards, e-travelers checks and ticketless travel<sup>34</sup>. Moreover, ICT investments tend to be the largest FDI sector of all globally (see later priority markets section), in terms of project numbers, and generate high levels of service exports (more than US\$170m ICT exports in 2016)<sup>35</sup>.

Hence there is a wide range of opportunities for technology-led firms within the bookings / reservations subsector. A recent USAid project also demonstrates the value of the subsector. This involved development of booking software ([www.armhotels.am](http://www.armhotels.am)), which was installed in 30 hotels and B&Bs in rural areas. As a part of the installation, at least 3 staff members from each hotel were to be trained to use the software<sup>36</sup>, and thus help to attract more bookings, and to keep better records.

Initial feedback from the Tourism Committee is that there are already Armenian tech firms

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<sup>32</sup> Trademap.org. Figure given is for 'Travel, Accommodation'

<sup>33</sup> National Statistics Service

<sup>34</sup> Tourism Strategy for Armenia 2007 – 2030, Prepared for the Ministry of Trade and Economic Development

<sup>35</sup> Trademap.org, Combines 'Computer services', 'Telecommunications services' and 'Information services'

<sup>36</sup> Tourism Projects Recap Armine



operating in tourism. This is an advantage, as it demonstrates that the sector is ‘ready to go’, and provides the right environment, including ICT skills, for a foreign investor to be successful. At the same time, investments here can help to introduce new technologies and know-how to the country.

Other technology opportunities also exist, for example GG is a domestic example of a ride sharing service operating successfully in Armenia. However, the subsector faces some regulatory issues. For example, these ride-sharing services are not required to comply with regulations applicable to traditional taxi services, but this is now being challenged in the courts<sup>37</sup>. However, overall there are fewer barriers to entry in this subsector than others within tourism, as there is less need for the large-scale capital investment associated with hotels or some types of attractions. At the same time, the quality of Armenia’s ICT infrastructure is ranked relatively low globally according to the World Economic Forum, which suggests there is scope for improvement.

#### 4.3.3. Air transport – READY TO GO

The opportunity ranks well for attracting more airlines, with more routes, and greater frequency, throughout the year. The main focus will be on European connections, and in the future other locations such as direct flights to the USA, could be considered. Moreover, routes are becoming increasingly profitable – there are increasing numbers of travelers to (and from) Armenia, and the reduction in airfares across routes makes international travel ever more affordable. For example, Aeroflot now flies from Russia six times per day, and consultations stated that flights from Moscow can be obtained for as little as US\$100.

After hotels, this is the second highest subsector in terms of number of investments in select ECA countries, with more than 200 since 2003. While less of a job creator (89 on average globally), the value of further air connections on the Armenian tourism industry is clear, in that it enables an increasing number of tourists to access Armenia, including from new locations. This value is underlined given that the other transport options to the country are quite limited, as borders with Turkey and Azerbaijan are closed. Investments from airlines also lead to job creation at airports themselves, from companies supplying baggage handlers, to catering, maintenance, etc.

The key challenge to attracting foreign airlines is to demonstrate enough demand for tourists to travel to Armenia, which is why it is vital that marketing efforts are well aligned to marketing to tourism investors. Consultations point to low demand being the reason for so few flights to Europe<sup>38</sup>, particularly in winter. This explains why those flights operate at night, as otherwise planes would be idle. While data shows year-on-year passenger growth of 10%, the GoA has attempted to further boost demand by removing passenger taxes at the low-cost Shirak airport. At Zvartnots Airport, the \$US20 per passenger fee for outgoing flights likely affects the attractiveness of the airport for foreign investors. Potential incentives include a period where airlines can operate without charge to test the market for new routes, and to

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<sup>37</sup> World Bank Concept Note: A Reform Assessment on Competition in Armenia: Fostering Market Contestability for Productivity and Prosperity, 2018

<sup>38</sup> Alongside various Russian flights, existing European connections are Vienna, Warsaw, Kiev and less frequently, to Paris. There are various flights to non-European destinations, particularly the Middle East.

work towards hotel development around the airport. Ongoing discussions are taking place for a connection to Romania, while Italy and Germany are key targets according to the General Manager of the Armenian International Airports.

The open skies legislation of 2013 has removed the main regulatory barrier to entry for investors. Efforts have also been made by the Government to improve the negotiation process: with support from the U.S. Embassy, the Department of Aviation is in the process of setting up a fully online system for airlines to apply to operate in the country.

#### 4.3.4. **Winter infrastructure – ASPIRATIONAL**

The opportunity in this subsector is primarily linked to hotels (i.e. winter resorts), but can also mean a range of other aspects related to skiing. The key reason that this subsector features highly is because there is currently no significant activity in winter tourism in the subsector, but consultations stated it is now a key area of interest for the government of Armenia due to unused natural conditions of the country.

The value in developing the subsectors and positioning the country as a year-round destination would be high in terms of attracting a larger number of tourists, and the scale of job creation, particularly in locations outside of Yerevan. As with hotels, a winter resort can act as an anchor investment to develop a cluster<sup>39</sup>. At the same time, it is difficult to be precise on potential for winter tourism in terms of FDI projects, FDI jobs, or exports, because specific data is unavailable.<sup>40</sup>

While the subsector gained the same total score as booking / reservations and air transport, it is classified as aspirational because there would be high value from attracting the subsector. At the same time, Armenia's value proposition in the subsector will need to be developed for it to become competitive.

While there is an extensive number of areas with conditions of various quality for mountain skiing in Armenia<sup>41</sup>; the development of a resort is expensive, and either requires a major large-scale investor, or perhaps consideration of a PPP solution (although PPP promotion would not typically be within the remit of an IPA). Although the country offers the right natural conditions for attracting winter infrastructure investors, the GoA would need to demonstrate that an investor here can be successful. This includes illustrating that there is sufficient demand from tourists (for example, by showing growth in other jurisdictions). The government would also need to maintain a clear financial commitment to developing the sector, which would include putting funding towards marketing to tourists, and making commitments to developing supporting infrastructure, such as access roads to potential sites.

#### 4.3.5. **Performing arts, spectator sports & related – ASPIRATIONAL**

Armenia has attracted 15,000 tourists from other countries for recent sporting events. A stage of the Paragliding World Cup has been held here, while the UEFA under-19 European Soccer

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<sup>39</sup> Facilitating Large-Scale Tourism Resorts in Mozambique: The Tourism Investment Generation Approach, IFC, 2012

<sup>40</sup> For example, FDI data requires using 'hotels' and 'other amusement & recreation industries' as a proxy.

<sup>41</sup> Tourism Strategy for Armenia 2007 – 2030, Prepared for the Ministry of Trade and Economic Development

Championship will take place in 2019. This may indicate an opportunity for an investor to develop and operate an events venue. The value of this subsector is that it will generate greater revenues than other attractions such as natural attractions, albeit greater initial investment would be needed. Moreover, FDI projects create more than 240 jobs on average globally, and there have been 47 projects recorded since 2003 into select ECA countries

However, consultations suggested that the Ministry of Youth and Sport is more focused on participation sports (e.g. adventure tourism, etc.), than on spectator sport tourism, and therefore the GoA should consider placing a specific emphasis on the latter. Similar to other products such as winter infrastructure, a clear financial commitment to this product area would be needed, together with a focus from the Tourism Committee in generating tourism demand in this area.

#### 4.3.6. Museums, historical sites, & similar – ASPIRATIONAL

Historical and cultural heritage is cited by 59% of tourists as the primary reason for choosing Armenia as a vacation destination. The country has over 4,000 historical monuments, while Yerevan alone hosts 40 art museums and galleries. However, while both museums and historical sites play an important role in Armenia's tourism sector, they need to be upgraded to meet international standards<sup>42</sup>. Moreover, there are relatively fewer FDI projects recorded in this subsector globally than others – just 18 since 2003, although on average they create more than 430 jobs.

In general, while protection and restoration of cultural monuments may be a key opportunity, there is scope for innovation for foreign investors. For example, and again related to technology, several stakeholders suggested scope for improving the quality of experiences, such as offering audio guides or interactive / virtual reality presentations (e.g. to show where frescos might have been in a monastery). Even simple upgrades can enhance visitor experiences, such as enabling free WiFi, or as many consultations cited – by providing restrooms<sup>43</sup>.

Another possibility is for commercial companies to operate the souvenir shops, restaurants, cafes within a museum or site. This type of approach is used in other countries, but as museums operate as non-profits in Armenia, this is not currently an option for investors. This offer could be extended to museums / sites acting as venues in themselves – such as for concerts and other cultural events, which in themselves would attract tourists, and thus more interest from operators.

One IBRD project was to fund an improved site management plan for the most attractive cultural and natural heritage sites located along the main tourism routes in Armenia<sup>44</sup>. In terms of the business environment, legislation is not currently conducive to accessing finance for museums, beyond that direct from government, although this is more likely an issue for domestic investors. Education and training specific to working in museums is another issue.

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<sup>42</sup> Tourism Strategy for Armenia 2007 – 2030, Prepared for the Ministry of Trade and Economic Development

<sup>43</sup> AMAP Southern Corridor Strategy, 2014

<sup>44</sup> IBRD development project appraisal document on a proposed loan in the amount of US\$55 million to the republic of Armenia for a local economy and infrastructure development project, December 1, 2015

As stated for the winter infrastructure and performing arts subsectors, the major initial challenge is for the GoA to have a clear focus on specific products / subsectors, both in terms of attracting the investors and attracting the tourist. However, prioritization will be needed to target a small number of specific products within these subsectors.

In fact, the GoA does already have a focus in this subsector. It developed a pipeline of 20 PPPs around historic-cultural monuments and Specially Protected Nature Areas<sup>45</sup>. Moreover, later in 2018, the MUSEXpo2018 international forum is taking place in the country. The aim is to provide a platform to both representatives of museums and the tourism sector to explore business opportunities.

#### 4.4. Aligning with Tourist Subsectors

It is important that subsectors for *investors* align more with targeting subsectors for *tourists*, so that the tourism offer that is being developed through the attraction of foreign investors, meets the types of tourism that the GoA wants to attract.

Consultations with the Tourism Committee, stated that its main interests (both established and aspirational), include adventure, religious, sports (including winter), wine and industrial. It is important that the Tourism Committee in its role of tourism marketing is well coordinated to the organization marketing to investors.

All three 'ready to go' sectors can align with these types of tourism.<sup>46</sup> While this is straightforward, those subsectors that align with products are more complicated. Hence while Winter Infrastructure, Performing Arts and Museums subsectors are all aspirational, if one of these is prioritized by the GoA for investment, this must go hand in hand with type of tourism targeted for investors. At the same time, the focus must remain on a small number of products for investment, and this will dictate the types of tourism that are prioritized (i.e. targeting investors in products that align to all of the five tourist types above is not recommended).

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<sup>45</sup> Presentation of Tourism Committee / Foundation 20 Projects

<sup>46</sup> Except for, for example, a casino hotel would not be appropriate, as gambling tourism is not one of the tourist types of interest to the government.

## 5. Potential Target Markets

The identification of priority target markets for targeting tourism investors, which is the focus of this section, should be clearly separated from priority markets for targeting tourists, as they are distinct opportunities.

The table below shows the origin of FDI projects from tourism investors into select ECA countries in the last 5 years, into different areas of tourism that align with the ‘ready to go’ and ‘aspirational’ subsectors identified above<sup>47</sup>.

This region is considered as this is effectively the market with which Armenia is competing to win projects. The data shows that three countries represent the bulk of opportunities: Germany, UK and USA; with Russia placing as low as 11<sup>th</sup>. Some caveats should be considered however, for example Ireland is shown to be 5<sup>th</sup>, but this is all from air transport, and is likely to be from one company only, Ryanair. It should also be considered that only three subsectors have significant representation, albeit fDi Markets, the source database will always underestimate because it tracks only greenfield FDI announcements and not all realized FDI projects.

While this demonstrates relative scale of opportunity in the three subsectors (accommodation, hotels, attractions) well, it should also be considered that some projects may be defined in other sectors, even though they could have a tourism angle. For example, a tech company may be defined as the ICT sector<sup>48</sup>, even if the investment was as a ride-sharing firm, etc. Another observation from the table is that that the three ‘ready to go’ sectors are those that have shown in the most opportunity for attracting investment to the region. This is because it has tended to be the main differentiator in the analysis, as the attractiveness of each of the subsectors in terms of infrastructure, skills, etc. have relatedly little differentiation.

In the case of air transport, targeting a combination of low-cost airlines (that do not have a home country) and territories is likely to be more aligned with where tourists are coming from. For example, an increase in tourists from Romania would suggest targeting airlines in Romania.

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<sup>47</sup> fDi Markets from the Financial Times. The database uses subsectors with slightly different definitions to those elsewhere in the report. This means for example, that Winter Infrastructure is not defined as its own separate subsector, and assumptions have to be made that projects will be classified elsewhere, for example in Accommodation. Data is collated based on project announcements from press cuttings. This means that any projects that are not publicly announced will not be recorded.

<sup>48</sup> As a comparison, 746 FDI projects were recorded in Software and IT services to the select ECA region in the timeframe. As with the tourism-specific projects, the top 3 source countries were again the USA (245 projects), the UK (84), and Germany (67).

**Table 4: FDI Projects to Select ECA Countries 2013-2018 in ‘Ready to Go’ and ‘Aspirational’ Subsectors, by Leading Source Countries**

Source Countries	Air transportation	Accommodation	Travel arrangement & reservation services	Support activities for transportation	Performing arts, spectator sports, & related	Transit & ground passenger transportation	Museums, historical sites, & similar	Total
UK	19	1	4			1		25
United States		11	11		3			25
Germany	5	4	6	5		2		22
France		12					1	13
Ireland	10							10
Turkey	4	4						8
Switzerland	5	2						7
Qatar	4	3						7
UAE	2	3		1				6
Ukraine	5		1					6
Russia	2	1	2					5

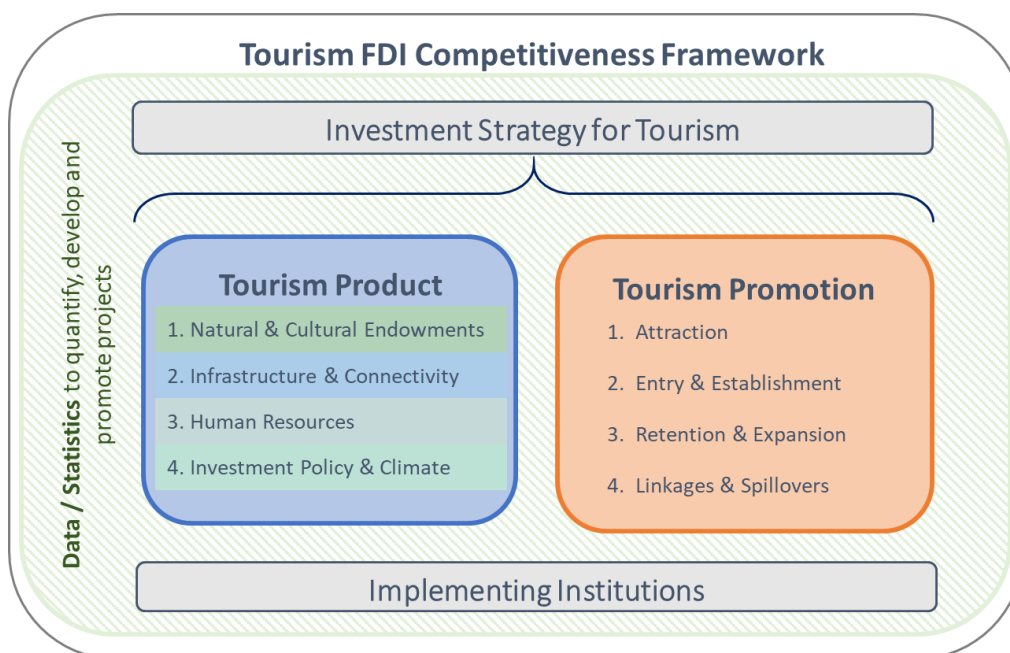
## 6. Armenia's Competitiveness for Tourism FDI

The following section suggests an analytical framework for assessing competitiveness for tourism FDI, followed by a review of international benchmarking indicators about Armenia and a detailed description of barriers to the country's competitiveness that were identified as part of consultations with the public and private sector.

### 6.1. Tourism FDI Competitiveness Framework

Several questions need to be taken into consideration to fully understand the level of tourism FDI competitiveness. A full framework for analysis is demonstrated in figure 10.

Figure 10: Tourism FDI Competitiveness Framework



1. Does Armenia have a **strategy or a plan for FDI in tourism** that would articulate specific objectives, priorities, and resources and implementing agency roles?
2. What is the state of the **"tourism product"** (or, what is Armenia's value proposition for the sector)? The key components of the product include: natural and cultural endowments; infrastructure and connectivity; human resources; investment policy and climate. These factors were raised as relevant in interviews with the private sector.
3. How effectively is Armenia's product **promoted to international investors**? A range of services should be offered in Armenia's investment promotion framework, including: investor attraction; entry and establishment services; retention and expansion services; and the facilitation of linkages and spillovers.
4. What is the state of **implementing institutions** and their effectiveness in improving the product and its promotion?
5. What **data** is available to assess the product and its success?

These questions all relate to the interconnected relationship of the tourism FDI competitiveness framework. The country's investment strategy or plan related to tourism forms the overarching framework for the sector. The tourism product, which entails all areas related to four main pillars: i) Armenia's natural and cultural endowments, ii) infrastructure and connectivity, iii) human resources, and iv) investment policy and climate – is an entire package that makes up the offering attractive to investors.<sup>49</sup> Tourism promotion entails all activities surrounding the tourism product, including the provision of marketing, information, assistance, and advocacy services along four functions possibly performed by IPAs, i.e. attraction, entry and establishment, retention and expansion and linkages and spillovers. The implementing institutions upgrade the tourism product and promotion through reforms in line with the overall strategy. Lastly, but importantly, data on the sector performance is required to track the progress along the plan, to inform decisions about the required reforms as well as to market the sector internationally.

Using this logic, the GoA can systematically assess barriers to Armenia's competitiveness in the tourism sector.

The next section provides a detailed analysis of specific constraints for FDI in tourism in Armenia, drawing on detailed data from international benchmarking reports and statistics, and feedback from over 25 private sector companies operating in Armenia.

## 6.2. Armenia's Tourism According to International Benchmark Data

The following text box summarizes the key findings using the World Economic Forum's (WEF Travel and Tourism Competitiveness Report) and the World Bank's Investment Competitiveness Analysis (ICB).<sup>50</sup> According to both methodologies, Armenia's performance along all pillars of its "tourism product", namely natural and cultural resources, infrastructure and connectivity, human resources investment policy and climate indicates that the problem areas are fairly dispersed across topics, with no single pillar providing particularly competitive rankings.

### Figure 11: Benchmarking Armenia's "Tourism Product"

#### World Economic Forum Travel & Tourism Competitiveness Benchmarking

Data from the WEF Travel and Tourism Competitiveness Report 2017 allows benchmarking of Armenia on a number of indicators relevant for the tourism product against the formerly suggested comparator countries and aspirational countries.

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<sup>49</sup> The complete list of relevant factors considered under each tourism product pillar and the indicators used to examine them are listed in appendix 2.

<sup>50</sup> Appendix 2 provides additional details on the full analysis and methodology of the ICB exercise.



**Table 5: Armenia vs Comparator Country Rankings<sup>51</sup>**

		Natural resources	Cultural resources and business travel	Air transport infrastructure	Ground and port infrastructure	Tourist service infrastructure	Human resources and labor market index	ICT readiness	Business environment index	Price competitiveness	Prioritization of Travel & Tourism	International Openness	Environmental sustainability
Country	Overall Ranking	Pillar 1: Natural and Cultural Endowments		Pillar 2: Infrastructure and Connectivity			Pillar 3: Human Resources		Pillar 4: Investment Policy & Climate				
Czech Republic	39	2.5	2.4	3.1	4.9	5.1	5	5.6	4.5	4.9	4.2	4.2	4.9
Lithuania	56	2.2	1.5	2.4	4.4	4.4	5	5.5	4.6	5.4	4.3	4	4.4
Romania	68	3	2.3	2.4	2.8	4.4	4.4	4.7	4.4	4.7	3.8	3.9	4.4
Georgia	70	2.4	1.6	2.2	3.3	4	4.8	4.5	5.3	4.9	4.9	3.1	4.4
Azerbaijan	71	2.4	1.7	2.4	3.7	3.3	5	5	4.6	5.4	4.8	2.9	4
Montenegro	72	2.6	1.1	3	3.2	5.4	4.5	4.8	4.4	4.8	4.6	2.4	4.3
Armenia	84	2.6	1.4	2.2	2.9	3.9	4.8	4.3	4.9	4.8	4.6	2.6	3.8
Moldova	117	1.6	1.2	2	2.5	2.8	4.3	4.3	3.8	5.4	3.4	2.1	4.1

Comparator
Aspirational

The following observations emerge:

- Armenia ranks second to last, ahead of Moldova, in terms of its overall travel and tourism ranking in the report.
- Regarding natural and cultural resources, Armenia performs worse than most reference countries, in particular on **cultural resources and business travel**, despite its abundant historical richness which would otherwise seem to offer an attractive value proposition.
- In terms of infrastructure and connectivity, Armenia ranks significantly lower on **air and ground transportation**, but also **tourist service infrastructure** than most reference countries.
- As for human resources and ICT readiness, Armenia scores much lower comparatively in terms of its **ICT readiness**. Interestingly, the indicator on human resources gives a fairly positive picture of Armenia’s offer albeit additional WB research and investor interviews suggest gaps in availability and quality of labor.
- In terms of investment policy and climate more broadly, Armenia scores well compared to other countries in terms of its business environment and prioritization of travel and tourism, albeit its score of **international openness and environmental sustainability** are low.

**World Bank Investment Competitiveness Benchmarking**

Additional benchmarking using the World Bank Investment Competitiveness Benchmarking which is a more composite measure of investment competitiveness in particular sector,<sup>52</sup> in this case tourism, provides the following insights:

A number of additional insights emerge using the ICB methodology:

- Infrastructure and connectivity: Armenia is a small market with a limited domestic market size. While this is not a barrier that can be addressed directly, the GoA should take steps to make Armenia easily accessible to accommodate the needs of international investors. The ICB analysis finds a particular weakness in **logistics and both the timeliness and reliability of international shipments**, which could be problematic for firms that require frequent and significant numbers of imports (e.g. major hotel chains). **The number of days required to get electricity is also not competitive** compared to benchmark countries (indicating that the total number of days required to get electricity by firms in Armenia is higher than countries successfully attracting tourism investment).<sup>53</sup>

- Human resources: Armenia faces a **number of barriers in labor and skills**. In addition to the country's comparatively small labor force, it also has relatively poor quality of management schools, limited staff training, and a limited ability to retain talent (though the capacity to attract talent faces fewer barriers).<sup>54</sup> [The results of the ICB are reinforced by the consultations conducted, which pointed to difficulty in finding skilled staff (as many leave the country), and a lack of tourism related management schools.]
- Investment policy and investment climate: A number of observations emerge:
  - Armenia's **political risk ratings** are lower than countries competitively attracting tourism investment. Government conduct is often responsible for increase political risk around the globe. In addition, Armenia's **judicial independence, bureaucracy quality, and length of time required for paying taxes** all require policy improvements for the country to be more competitive for investment attraction.
  - Armenia also has issues regarding **access to finance**, as firms have trouble accessing loans/getting credit, and financing through local equity markets when compared to countries successfully attracting tourism investment. [This was also confirmed by in country consultations].
  - **Firm capabilities** in Armenia are particularly limited compared to other countries successful at attracting FDI, as revealed by a number of indicators on innovation, including firm level technology absorption, production process and business sophistication, and the state of cluster development. [Consultations also revealed the limited amount of technology and innovation being used in attractions and marketing that these results confirm]. This is another reason why Armenia should put more effort at FDI attraction which can bring many benefits to the domestic private sector.
  - The **quality and quantity of local suppliers** is another area where Armenia is less competitive compared to countries successfully obtaining tourism investment. This issue is further exacerbated by the **limited intensity of local competition**, another area where Armenia faces barriers to investment attraction when benchmarked against other successful countries receiving investment.

Appendix 2 provides additional details on the full analysis and methodology of the ICB exercise.

### 6.3. Specific Barriers to Armenia's Tourism FDI

The following section summarizes feedback from the private sector, using the formerly suggested framework for investment competitiveness in tourism, which is composed of (1) an investment strategy for tourism, (2) tourism product, (3) tourism promotion, (4) implementing agencies, and (5) data. The section concludes with an overview of the key barriers in a table format.

#### Investment Strategy for tourism

**Investment strategy for tourism:** Investor consultations revealed concerns that successive

<sup>51</sup> The World Economic Forum's 2017 Travel and Tourism Competitiveness Report

<sup>52</sup> The ICB methodology uses data from a range of indicators using key international competitiveness benchmarking reports, including the World Bank's World Development Indicators, World Bank Enterprise Surveys, the World Bank/IFC Doing Business rankings, the International Country Risk Guide, and the WEF's Global Information Technology Report and Global Competitiveness Index. It benchmarks Armenia's performance across a range of indicators to the performance of all other countries in the world that have successfully received investment in the tourism sector.

<sup>53</sup> Additional infrastructure specific benchmarking is covered by the WEF Travel & Tourism Competitiveness Report indicators.

<sup>54</sup> As demonstrated by Armenia's rank of 97 out of 137 countries globally in the World Economic Forum's Global Competitiveness Report's ranking on Country Capacity to Retain Talent.

Governments have not strategically targeted tourism, for example by studying market needs and how they are evolving. The newly created Committee and Foundation provide initial solutions to addressing this if their roles and complementarities can be determined. In addition to better aligning their coordination, the Government needs to be able to implement full master planning / zoning of tourism infrastructure.

The WEF Travel & Tourism Competitiveness report ranks Armenia 71 out of 136 countries for the government's prioritization of developing the travel and tourism industry, which is lower than most of its comparator countries (Georgia, 41; Montenegro, 62; Azerbaijan, 49), though higher than Moldova (ranked 121).

## The "Tourism Product"

### Natural and Cultural Endowment

**Development of Attractions/ Natural Resources:** Many domestic and foreign interviews suggested that Armenia's value proposition needs to be further developed to entice more tourists. Currently, Armenia ranks stronger than its comparator countries in terms of its natural endowments at 89 (Moldova, 136; Azerbaijan, 109; Georgia, 106; Montenegro, 90), demonstrating its product potential in this area (see table 5).<sup>55</sup> However, its cultural resources and business travel rank 99 out of 136,<sup>56</sup> (Georgia, 81; Azerbaijan, 69). These rankings demonstrate that Armenia can make improvements to the development of its attractions and natural sites. Efforts should be made to further incentivize more investors to enter the market. Alongside some of the projects the Tourism Foundation is working on, there are simple things like increasing and standardizing hiking trails signage that would be useful.

Another aspect that can compromise the product is where untrained people act as tour guides, and provide incorrect or misleading information to tourists. There is a suggestion that guides should be licensed to ensure a level of professionalism, but this might also promote corruption in obtaining a license. Together with infrastructure, this is another key area where donor funded projects are focused.

**Seasonality:** Tourism still has a relatively short season in Armenia, and this can be a challenge for enabling businesses in all subsectors to be sustainable, particularly domestic investors who have fewer resources to manage the cyclical nature of the industry. Demonstrating this challenge, available analysis suggests that peak season occupancies in Yerevan may be approaching 100%, while the low season rate may drop to as low as 10%<sup>57</sup>. This illustrates a need for diversifying the tourism offer and its products, so that the country can credibly become a year-round destination.

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<sup>55</sup> This index uses data on the following to determine overall scores: Number of World Heritage natural sites; Total known species; Total hectares of terrestrial and marine areas under protection as a share of country's total territorial area; Natural tourism digital demand; and Attractiveness of natural assets based of perceptions of the motivating factor for tourist visits. Source: WEF Travel & Tourism Competitiveness Report, 2017

<sup>56</sup> This index uses data on the following to determine overall scores: Number of World Heritage cultural sites in the country; Number of oral and intangible heritage practices and expressions; Number of international association meetings, Number of large sports stadiums; Cultural and entertainment tourism digital demand. Source: WEF Travel & Tourism Competitiveness Report, 2017

<sup>57</sup> Source: USAid Tourism Development Strategy Review: A Roadmap 2014 - 2019

## Infrastructure and Connectivity

**Infrastructure**<sup>58</sup>: Almost all companies interviewed cited infrastructure as the main issue affecting their ability to operate and grow their business. Infrastructure can be seen as the foundation of the tourism value chain, and where this is lacking it constrains the expansion of tourism offers, especially by tour operators<sup>59</sup>. Armenia currently ranks 88 for both ground transport and air transport infrastructure, while several of its comparator countries score significantly higher (Azerbaijan, 49 for ground and 77 for air transport; Montenegro 65 for ground and 54 for air transport).

In particular, the quality of roads in the country were found to be poor, citing that journeys are uncomfortable and time consuming even with better quality buses. This perception is accentuated for tourists that are on a package and have come from Georgia. Other tourism infrastructure shortfalls cited by some included a lack of toilets, information centers, and insufficient garbage collection.

There are various donor-funded projects working to develop infrastructure. For example, one of these focuses on the towns of Goris and Meghri, and the villages of Areni, Tatev and Tandzatatap, to restore building facades, roofs, public spaces, access roads, water and sanitation, drainage and street lighting<sup>60</sup>.

**Connectivity, domestic**: Beyond roads, transportation within Armenia is a challenge generally, with insufficient connectivity from town to town, and within regions. The railroad is not connected in the southern part of the country, therefore it can only be partially used as a solution for independent tourists. The quality of service from taxis is also variable, and while ride-sharing options do exist, there is still scope for more competition. This may represent an opportunity for ground transportation investors, but until it is addressed it remains a challenge for other subsectors such as tour operators.

**Connectivity, international**<sup>61</sup>: Access to Armenia can be challenging for tourists, especially from Europe, given the cost of fares (despite some reductions in recent years), the limited number of routes, and the time of flights arriving to and leaving from the main Zvartnots airport. Given the issue is about initial access to Armenia, this affects all tourism subsectors.

There is, however, now an open skies policy which the Aviation Authority states removes any barriers for new airlines to enter. In 2013, after operating for a year, airport passenger traffic in Yerevan, the capital, expanded by approximately 20 percent likely due to this policy shift. Additionally, the secondary Shirak airport at Gyumri removed airport duty tax two years ago, which has led to Pobeda, a 'low cost' Russian airline, operating from there. Consultations with

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<sup>58</sup> Some IPAs place a major focus on infrastructure as a key activity. See EDB Singapore for example <https://www.edb.gov.sg/en/our-industries/urban-solutions-and-sustainability.html>. However, this requires a large budget and broad mandate

<sup>59</sup> Source: Armenia: South Corridor Tourism Development Strategy, March 2015

<sup>60</sup> Source: IBRD project appraisal document on a proposed loan in the amount of US\$55 million to the republic of Armenia for a local economy and infrastructure development project, December 1, 2015

<sup>61</sup> Cape Town, South Africa's IPA combines trade, investment, and tourism promotion. However, of particular interest is that the agency has specific involvement in promoting airlines to establish. See [http://www.wesgro.co.za/special-projects\\_air-access?category\\_business\\_category=Air%20Access](http://www.wesgro.co.za/special-projects_air-access?category_business_category=Air%20Access)

the Head of the General Department of Civil Aviation and the General Manager of Armenian International Airports reveal that the \$US20 per passenger fee at Zvartsnots is unlikely to be removed. The government is in the process of making reforms to increase transparency in granting of licenses, but despite these many positive reforms in recent years, this is still a barrier for Armenia.

## Human Resources

**Skills and education:** There is a strong perception of a hospitable Armenian culture from most companies. However, different investors in hotels, resorts and events (both domestic and foreign) stated that professional skills are lacking in places. Some have their own training schemes, which offer leadership opportunities, and a range of skills tuition. For higher-end touristic services, there is a need to speak both English and Russian, but younger people are now largely speaking English and not Russian, and those with more skills seek opportunities abroad. This challenge is further demonstrated by the ICB analysis, which shows that Armenia faces many barriers to investment attraction due to its limited ability to retain talent compared to countries successfully attracting tourism investment (see appendix 2 for the full analysis).

While it is normally relatively easy to find trainable staff, attrition can be a problem. This may be one reason that the National Statistics Service indicates that while Armenia has 10,703 hotel rooms only 4,464 people are employed in hotels. This implies a staff to room ratio of 0.41, which by international standards is an exceptionally low ratio.<sup>62</sup>

Various companies from across the range of subsectors consulted have a perception that universities and schools are not providing skills to people that can be transferred to the tourism industry. Similarly, the ICB analysis shows that Armenia's management schools are not as competitive compared to other countries that are successfully receiving tourism related investment. Nevertheless, there are training programs, which include:

- The Ministry of Education is prioritizing tourism, including specific areas such as eco and agri-tourism. The gap is at vocational levels, and to address this there are 17 educational institutes across the country, training around 200 people per year in total. The Ministry is also able to train staff specifically in collaboration with companies<sup>63</sup>.
- Universities such as Yerevan State have higher education courses, in subjects such as Tourism Management.
- An Armenian Tourism Institute, providing training on 49 subjects including IT, management, and hospitality<sup>64</sup>. However, it is only training 30 people per year, and appears not to be well known by those companies consulted.

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<sup>62</sup> In Russia, the average staff to room ratio is around 2 while in India it is 1.6. Source: USAid Tourism Development Strategy Review: A Roadmap 2014 - 2019

<sup>63</sup> VET Education document, from the Ministry of Education. An interesting overseas example of this comes from Belize in the Caribbean. Here, the Investment Promotion Agency, Beltraide, has a division called the Belize Training & Employment Centre, which exists to train staff as required by investors across sectors. See more at <https://www.belizeinvest.org.bz/btec.html>

<sup>64</sup> Armenian Tourism Institute

- An International Training Centre for tour guides in Yerevan, but it also operates on a similarly small scale of just a few people per year.
- The Armenian Greek College, also provides vocational training for the sector, but again is not adequately equipped to international standards, and produces only a relatively small number of graduates a year<sup>65</sup>.
- The IDeA Foundation is launching capacity building initiatives in the Tatev area, which could be models for replication<sup>66</sup>.

**Attitudes/private sector development needs:** All companies interviewed that are based outside Yerevan suggested that the success of Armenian tourism is held back by the mindset of small business owners in the rural areas in which they operate. Lack of interest in scaling operations, serving additional clientele, or becoming more popular tourism destinations contribute to the limited capacity available, and therefore, small-scale tourist services (such as bread and breakfasts) do not grow and expand. Associations consulted indicate they have attempted and been somewhat successful in changing this mentality, though it is likely that further tourism-focused rural business development is needed.

### Investment Policy & Investment Climate

**General business environment<sup>67</sup>:** Key aspects often considered by tourism investors and operators include acquisition procedures, construction permit procedures, and relevant licensing procedures<sup>68</sup>. The general perception across most consultations was that there were no significant issues related to the broader business environment. For example, a (domestic) law firm stated that the labor code is flexible. For construction, planning procedures are considered acceptable and the time to obtain a permit is reasonable. One example cited of the improving environment is that a company can now be started in three days, as there has been a significant reduction in the number of registration procedures, which can mostly be completed online. This positive outlook is supported by the World Bank ICB analysis and other studies<sup>69</sup>, even described as being one of the most liberal and successful among emerging market economies<sup>70</sup>.

However, prior WBG survey evidence targeting FDI companies in Armenia found significant concerns around the overall (non-sector specific) FDI policy and regulatory environment in Armenia, a horizontal issue that likely affects the attractiveness of its economic sectors, including tourism<sup>71</sup>. For example, one key constraint cited was in the unpredictable and

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<sup>65</sup> USAid Tourism Development Strategy Review: A Roadmap 2014 - 2019

<sup>66</sup> Armenia: South Corridor Tourism Development Strategy, March 2015

<sup>67</sup> The IPA has an important policy advocacy role to play. For example, Latvia's LIAA policy advocacy action plan recommended 193 amendments over 9 years

<http://unctad.org/en/pages/PressReleaseArchive.aspx?ReferenceDocId=10080>

<sup>68</sup> World Bank: Global Investment Promotion Best Practices - Winning Tourism Investment, 2013

<sup>69</sup> The World Economic Forum's Tourism Competitiveness Report places Armenia at a relatively high rank of 39th. Also the overall Global Competitiveness Report shows improvements in Armenia's scores and global ranking on the perceived intensity of local competition, the extent of market dominance, and the effectiveness of anti-monopoly policy. Plus the World Bank's 2014 Doing Business report highlighted the following positive developments for businesses: established a one-stop shop in 2010 allowing electronic registration and merging; procedures for reserving a business name, registering a business and issuing a tax identification number.

<sup>70</sup> Stated by the American Bar Association and KPMG stated in a 2009 report. Source: Armenia: South Corridor Tourism Development Strategy

<sup>71</sup> World Bank, Survey Measuring Investor Confidence in Armenia, 2017

inconsistent nature of government action. Additionally, the ICB analysis revealed unfavorable scores on the International Country Risk Guide's bureaucracy quality and corruption ratings compared to countries that have successfully attracted investment. It also highlighted some barriers due to the amount of time senior management spends to completing paperwork compared to successful benchmarked countries,<sup>72</sup> indicating that there are certain business regulatory burdens.

In global conditions, where FDI in tourism has fallen in the ECA region over the last couple of years, any issues derogating from a strong investment climate such as an exercise of discretion by bureaucrats, or corruption detracts from Armenia's competitiveness for FDI in any sector. It is all the more so when competition for regional FDI is growing.

**Taxes and incentives:** there was a mixed perception on the tax code. One foreign hotel interview stated that customs taxes for importing goods are high (30-40%), together with corporate tax at 20%, thus affecting competitiveness. Various companies across the range of subsectors suggested that the code is too complicated (an issue that has been exacerbated when this code was revised). Also, there are no operating standards around tax, including technical tools or consistent accounting

However, other consultations suggested the code is now consistent with the approach of advanced countries. Supporting this, in 2013, Armenia made paying taxes easier by merging the employee and employer social contributions and individual income tax into one unified income tax<sup>73</sup>.

In terms of incentives, firms consulted were not aware of potentially available incentives in the tourism industry<sup>74</sup>, which was highlighted in one consultation in which corporate tax exemptions were suggested as an option. However, while locational and behavioral incentives may be one of the policy tools for tourism, they should be considered as part of a broader tourism development strategy and underpinned by data, together with sound monitoring and an evaluation system. Prior WBG assessments suggest that Armenia currently lacks such a system for its incentives more broadly.

**Access to finance:** two domestic investors looking for larger scale support (i.e. to develop resorts) stated that finance is very difficult and complicated to obtain, particularly for investors from the younger generation and for small and medium sized enterprises. While small value loans can be obtained, this is less helpful for larger projects. Moreover, some domestic investors are reluctant to take loans as they are seen as greater risk, given the terms for repayment. One challenge highlighted is that especially in banks outside Yerevan, bank staff are not able to fully evaluate an investor's project. However, banks may also suggest investors are not sufficiently prepared. Matching grants for SMEs are not available, while

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<sup>72</sup> World Bank Enterprise Survey Data from the World Bank Investment Competitiveness Benchmarking Analysis.

<sup>73</sup> Ibid

<sup>74</sup> Tourism Committee: Gaps in the Field of State Tourism Policy, 2018. Additionally, Business Armenia (BA) cites that: "Armenian Tax code provides several incentive schemes which can be applied to the investment projects in tourism sector, particularly: 1. Customs duty exemption on the importation of goods and materials, machinery for the investment project; and 2. VAT payment prolongation up to 3 years in case of importing necessary goods and machinery for the investment project." Additionally, BA cited accelerated depreciation being applied for hotel construction be considered an additional incentive.



overseas financial investment is difficult to obtain as guarantees are expected. Foreign companies interviewed for this report did not specify the exact constraints they face around accessing finance.

The complementary ICB analysis indicates, additionally, that Armenia faces barriers to competitive investment attraction due to the limited domestic credit available and the difficulty faced in accessing loans (see appendix 2 for full analysis).

One approach to financing larger scale, infrastructure developments (this is particularly relevant for visitor attractions) can be through a PPP model. The Committee / Tourism Foundation are currently undertaking a program of developing 20 historic-cultural monuments and specially protected nature areas into tourism products, where PPP is seen as a key approach.

**Insurance:** for less common activities, such as (domestic) adventure tourism tour operators, it can be difficult to find insurance providers.

**Limited capacity of industry associations:** some of the existing associations representing the tourism industry may not have generated sufficient industry support and resources to advocate sufficiently with government, which means policy is not necessarily being built upon industry consensus<sup>75</sup>.

## Tourism Promotion

### Investor attraction/marketing

This issue affects all subsectors. Multiple domestic and foreign companies stated that there is insufficient international marketing towards tourists. As a comparison, neighboring Georgia's tourism authority has US\$19m for promotional activities, compared to US\$330k by Armenia's Tourism Committee, itself a doubling of the previous year's budget. This is to cover preparation of marketing collateral, promotional videos, digital marketing, participation at trade shows, assistance to festivals, and funding of tourist information centers in the regions<sup>76</sup>. The Committee also has limited influence on certain important policy decisions related to tourism investment (e.g. road construction, renovation plans, taxation, etc.).

The marketing challenge is also shown given the limited availability of relevant data in Armenia. This affects the ability of investors in any subsector to do due diligence on Armenia's market potential, or to identify specific opportunities. For example, data does not tend to differentiate between tourist and business travelers, and data is limited to precisely where tourists are originally travelling from.. Previous travel-related statistical surveys were completed in 2007 and then 2013. This is too few as the exercise is time consuming and

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<sup>75</sup> Armenia: South Corridor Tourism Development Strategy, March 2015. Note this issue was not raised in consultations. London & Partners is a good example of an IPA where investors play an intrinsic role in the operations of the agency, through its formal partnership network. See more at

<http://www.londonandpartners.com/partners/our-partners/search?partnerlevel=gold&partnertype=convention-bureau>

<sup>76</sup> Tourism Committee: Gaps in the Field of State Tourism Policy, 2018



expensive. Cost is again the reason that the aviation authority and airport operator will buy International Air Transport Association (IATA) data.

One source of data that could be of particular use is the proposed administrative registry, which would come into force following the passage of a new tourism law, which would entail a database containing complete administrative information on travel businesses operating in Armenia. This includes the tour operators, agencies, guides, hotels, restaurants and transportation services<sup>77</sup>. A list of needed tourism data is available data in appendix 5.

### Other investment promotion services (entry, retention, linkages, etc.)

Successful commercial companies are acutely aware of the critical role that customer service, namely, aftercare, plays in the success of their businesses. Similarly, ‘best-in-class’ IPAs around the world see aftercare as a key strategic business function. Where proactive aftercare programs are undertaken on behalf of the investor this leads to better outcomes, greater retention, more expansion, and increased value-added activities and linkages with local suppliers of goods and services.

The investor feedback did not provide significant input on this topic given that most interviewees were domestic companies. It is international good practice to provide such services to investors. Given that FDI in the tourism sector is very limited in Armenia, the priority should likely rest in developing its attraction and entry/establishment capability to attract new projects, while the development of aftercare and additional services subsequently should follow.

In this section, the above principal barriers to Armenia’s tourism sector competitiveness for FDI have been discussed. The table below summarizes these.

**Table 6: Prioritizing Barriers to Tourism Investment**

Tourism FDI Competitiveness Framework Area	Barrier Name	Priority Level	Description
<b>Investment Strategy for Tourism</b>			
Strategy	Government investment promotion strategy	<b>HIGH</b>	The Government currently does not have an investment strategy or plan for tourism that would sufficiently address FDI. It should develop an action plan to prioritize tourism FDIs and NEM investments.
<b>Tourism Product</b>			
1. Natural & Cultural Endowments	Development of Attractions/ Natural Endowments	<b>HIGH</b>	The Government must ensure the quality of the attractions and that the presentation of natural endowments is modern and compelling to tourists.
	Seasonality	<b>MEDIUM</b>	This barrier is linked to infrastructure and connectivity. The Government must prioritize seasonality in its strategy and

<sup>77</sup> Source: Tourism Committee: Gaps in the Field of State Tourism Policy, 2018

Tourism FDI Competitiveness Framework Area	Barrier Name	Priority Level	Description
			approach to ensure that investors have a year-round business opportunity.
2. Infrastructure & Connectivity	Infrastructure	HIGH	Insufficient and low quality infrastructure was cited in almost all consultations, in particular road quality and access. Aforementioned indexes complement the concerns in this area.
	Connectivity, international	HIGH	The Government must ensure promotion of additional flight connections, in particular to Europe.
	Connectivity, domestic	MEDIUM	The Government needs to support the enhancement of travel between domestic locations, e.g. bus, rail, and taxi travel.
3. Human Resources	Skills & Education	MEDIUM	The Government must work with relevant stakeholders to prioritize the development of a strong pipeline of skilled staff with tourism-specific training.
	Attitudes/Private sector development	LOW	Smaller firms engaged in the tourism sector require training and development to reach necessary standards for the industry. This is more of a domestic investor challenge
4. Investment Policy & Climate	Regulatory barriers	MEDIUM	The Government must ensure that companies can invest quickly, with little administrative burden.
	Taxes and investment incentives	MEDIUM	The Government must ensure that the tax code is simple and comparable to other countries successful in attracting investment.
	Access to finance	LOW	The Government must ensure investors are able to access funding (although this is more of a domestic investor challenge).
	Insurance	LOW	Government policy regarding access to insurance for a range of tourism companies must be addressed to ensure that efficient operation is possible (particularly for tour operators).
	Limited capacity of industry associations	LOW	Tourism trade associations need additional capacity building to support their ability to be an effective industry voice.
<b>Tourism Promotion</b>			
1. Investment Attraction	FDI attraction/marketing	HIGH	The Government lacks a strategy/action plan for investment outreach and facilitation. There is an insufficient budget for Armenia's tourism strategy implementing agencies to effectively compete.
<b>Implementing Institutions</b>			
Implementing Institutions	Implementing Institutions	HIGH	The Government must ensure there are clear definitions of roles for relevant government stakeholders in tourism investment promotion. Three agencies currently hold related mandates.
<b>Data</b>			

Tourism FDI Competitiveness Framework Area	Barrier Name	Priority Level	Description
Data	Data availability	HIGH	The Government must ensure a range of up to date datasets with which to understand the tourism opportunity and its evolving trends are available and maintained.

## 7. Institutional Roles

A clear division and an effective coordination of the institutional roles is essential. In particular, the identification of which institution leads in proactive and reactive promotion of investors, and the clarification of the roles that other stakeholders play in supporting the lead organization is key.

In Armenia, there are currently three main Government stakeholders in this area, described below. This information is based on written materials<sup>78</sup> as consultations on institutional roles are yet to take place.

### 7.1. Tourism Committee

A review of the Committee's mandate suggests that it has a key role in supporting investment in tourism, but is not necessarily specified as the promotional body targeting potential new investors. It is also responsible for developing investment promotion projects (i.e. investment opportunities), but while the word 'implementation' is used, the expectation of specific promotion activity is ambiguous.

Most of the Committee's mandate alludes to improving the investment climate and marketing of Armenia in broad terms. Only the first bullet point is focused on working directly with investors. Even in this instance, this is not explicitly centered around promotion, but likely more around supporting existing investors in general. It is noted that this by itself is an important activity, but rather for an IPA than a sectoral body.

#### Figure 12: Tourism Committee Mandate

The Committee's mandate includes 34 defined functions and objectives. Some of these relate to specifically to development of the tourism offer and marketing to tourists, which is not the focus of this report. However, those that are of relevance would be to:

- Support private companies active in the tourism sector;
- Come up with recommendations on international development in tourism sector, conclude international agreements, secure international cooperation in the tourism sector, present the interests of the Armenian Government in the tourism sector within the framework of international cooperation;
- Support the enabling environment for attraction of local and foreign investments in the tourism sector;
- Promote Armenia and the Armenian tour product in the global market (including promotion materials) by means of participation, press, social media, electronic marketing and other interactions;
- Support and participate in developing the legal framework relevant to the business environment, investments, industrial and tourism sectors; develop actions to eliminate the administrative barriers in the mentioned sectors;
- Participate in developing investment, industrial, tourism and export promotion projects and their implementation.

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<sup>78</sup> The Development Foundation of Armenia Charter; Tourism Committee Objectives and Functions document; Tourism Foundation Objectives and Functions document

## 7.2. Armenian Tourism Development Foundation

The Foundation's role is more closely aligned with developing the actual tourism product, that is, attractions for tourists to visit, and opportunities for investors to invest in. It is essentially the implementation body for the Committee's policy, although the two work closely together and there is likely some overlap. Despite being the implementation body, the Committee's stated functions appear more closely aligned with actual interaction with companies.

### Figure 13: Tourism Foundation Mandate

The Foundation's mandate includes 12 defined functions and objectives. Like the Committee, some of these relate specifically to development of the tourism offer and marketing to tourists, which is not the focus of this report. However, those that are of relevance would be to:

- Develop the Armenian tourism product, its marketing and promotion;
- Implement the tourism development state projects concluded by agreements with the Authorized Body (the Committee), including infrastructure, tourism centers and rural development. The current focus is on the developing 20 defined projects cited previously;
- Come up with recommendations on the exterior of the tourism infrastructure and functional standards, innovation technologies in the tourism industry and present them to the Committee.

## 7.3. Business Armenia

Business Armenia's role is that of an investment and export promotion agency. This clearly specifies an investment promotion mandate. The Tourism Committee's also portrays Business Armenia as working to attract investors to 20 identified PPP investment projects. While there was no opportunity to meet Business Armenia for the purpose of preparing this report, international good practice is that IPAs play the principal role in FDI promotion.

### Figure 14: Business Armenia Mandate

This organization is formed from the mandated functions and objectives of the Development Foundation of Armenia. There are 39 functions specified, which include:

- Assistance of foreign investors based on the principle of "One Stop Shop" and coordination of aftercare services;
- Participation in the development of investment, industrial, tourism and export promotion programs and implementation;
- Promotion of the competitive advantages of Armenia's economy and its sectors.

## 7.4. International Good Practices in Tourism Promotion

Good practice would normally dictate that a single Government IPA takes the lead on attracting investors at the national level. In Armenia, this is Business Armenia.

However, for promotion to be successful, it requires sufficient capacity, resources, and commitment from the IPA.

Moreover, tourism is unlike most sectors in that it is more demand-led. This means that investors may be (slightly) more influenced by the number of tourists, as opposed to the investor value proposition. In this sense, there is an argument for the institution that attracts tourists to play a role in attracting tourism investors. In this case, that would be the Committee, which also has the advantage of having the expertise in tourism.

Nevertheless, in most countries that target tourism investors, it is the IPA that will be targeting the sector, as they have the promotion expertise, and can bring in sector experts to specifically work on this sector,<sup>79</sup> as suggested by the experience of Cyprus<sup>80</sup>, Jamaica<sup>81</sup>, and Turkey<sup>82</sup>.

A key consideration for the GoA is that the agency that will be designated to take charge of proactive investment promotion in the sector must illustrate that it plays an influential role in attracting key investments. This requires a strong capability to argue the case for new foreign investment. The market for FDI is extremely competitive and becomes more so every year. The table below demonstrates best practices in investment promotion, which are relevant for Armenia's FDI ambitions in tourism.

Another argument for the IPA leading is simply that it can create a confusing and disjointed picture for investors if more than one national agency has a promotion mandate in different sector. As an example, if wine multinational Pernod-Ricard were to consider a vineyard investment, would this be considered as agribusiness or as part of a wine tourist attraction? Therefore, who should target this opportunity?

The table below "Summary of investment promotion best practices" shows that a clear investment promotion strategy, clear mandates among institutions and cooperation, sector targeting and results measurement must be implemented if Armenia hopes to attract significant FDI into its tourism sector.

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<sup>79</sup> According to World Bank: Global Investment Promotion Best Practices, 57% of national IPAs worldwide actively target tourism investment. This also demonstrates the scale of competition that Armenia faces.

<sup>80</sup> Cyprus Investment Funds Association, "Tourism." (Accessed 1 June 2018). <http://www.investcyprus.org.cy/en/growth-sectors/cyprus/basic-facts/cyprus-climate>

<sup>81</sup> Jamaica Promotions Corporation, "Why Jamaica?" (Accessed 1 June 2018). <http://jamaicatradeandinvest.org/investment/sectors/tourism/why-jamaica>

<sup>82</sup> Invest in Turkey, "Tourism." (Accessed 1 June 2018). <http://www.invest.gov.tr/en-US/sectors/Pages/WellnessAndTourism.aspx>

**Table 7: Summary of investment promotion best practices<sup>83</sup>**

Category of good practice	Specific good practices identified
<b>1. Clear strategy with targets</b>	<ul style="list-style-type: none"> <li>• Operating within a clear and planned strategic framework                             <ul style="list-style-type: none"> <li>○ Strategic plan with targets discussed and agreed with key stakeholders</li> <li>○ Allocation of resources in line with strategic priorities</li> <li>○ Strong M&amp;E system to measure progress against strategic priorities</li> </ul> </li> </ul>
<b>2. Successful targeting of competitive sectors/subsectors for FDI promotion</b>	<ul style="list-style-type: none"> <li>• Identifying target sectors/subsectors</li> <li>• Utilizing proactive targeting investor outreach methodologies</li> <li>• Identifying “missing links” in domestic ecosystems and/or corporate value chains</li> <li>• Using targeted business propositions for key sectors</li> </ul>
<b>3. Strong cooperation among investment promotion actors</b>	<ul style="list-style-type: none"> <li>• Relevant government and private sector agencies working in close cooperation to provide investors with strong customer service</li> <li>• Cooperation in investor servicing and aftercare</li> <li>• Lead sharing among national and other IPIs</li> <li>• Aligning strategic, tactical, and operational instruments to attract FDI</li> <li>• A shared and endorsed (foreign) investment strategy</li> <li>• An unequivocal commitment to meeting investors’ needs (customer service)</li> <li>• Targeted (SMART) incentives schemes</li> <li>• Clear country branding</li> </ul>
<b>4. Culture, working methods, and organization</b>	<ul style="list-style-type: none"> <li>• Managing and operating the national lead IPI as a consultancy-driven services organization:                             <ul style="list-style-type: none"> <li>○ A private-sector organizational mindset, shifting from general image-building into providing (free) information and consultancy services to foreign companies who are treated as clients</li> <li>○ Clear mandate dedicated to investor facilitation, outreach, and aftercare, carrying no regulatory functions</li> <li>○ A mix of staff with public and private sector experience, introducing performance-based bonuses and other incentives for staff</li> <li>○ Forming (formalized) links with the private sector</li> <li>○ Having an independent advisory board with private sector representatives as board members</li> <li>○ Partnering with location consultants and other multipliers that have access to corporate decision makers</li> </ul> </li> </ul>

However, the fact remains that the GoA is currently delivering a limited set of services beyond some facilitation for investors, hence offering an opportunity to rethink the strategic framework in a way that would introduce the missing functions. The below framework shows the types of service that an IPA would typically provide at each stage of an investment. It may be useful to think about the specific roles of Armenia’s agencies, and clarify the entry points for each agency.

As suggested in the competitiveness analysis, key functions for Armenia given its stage of tourism FDI are to boost attraction and facilitation of new projects. Key services required include provision of marketing services, information services and facilitation services as part

<sup>83</sup> WBG synthesis of best practices.

of image building and investor outreach. Examples of concrete tasks include inquiry handling techniques to incoming tourism investors, development of tailored tourism content for the website of the lead organization, a research and market intelligence function for providing information, and detailing the investment process to investors.

All three agencies will need to contribute to this initial effort through their own strengths and capabilities that they are developing. For example, the Tourism Foundation is in charge of the sector strategy and master plans, and owns sector-specific knowledge and certain data that is needed to for each of the services provided by an IPA. Business Armenia, on the other hand, is Armenia’s national investment promoter and owns investment-specific knowledge, systems and data that have been developed over time and could be further strengthened. The key remains that as with any other sector, investment promotion goes beyond the mandate of one agency and is typically a collaborative effort.

**Figure 15: 4\*4 Approach to categorize FDI Services (red box suggests priority areas for Armenia)**

	Investment attraction	Investment entry	Investment Retention & Expansion	Linkages & spillovers
Category 1: Marketing services	X		X	
Category 2: Information services	X	X	X	X
Category 3: Facilitation services	X	X	X	X
Category 4: Policy advocacy	X	X	X	X

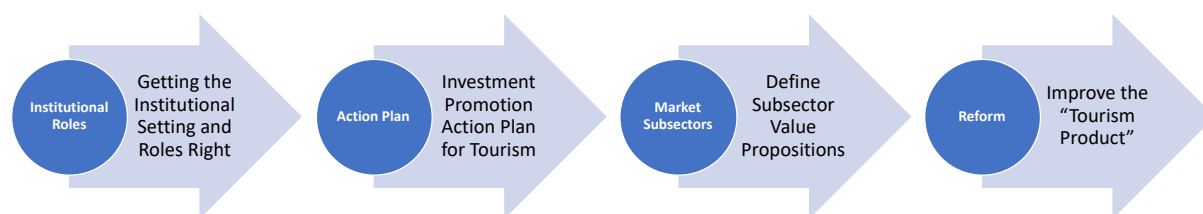
To take full advantage of the presented rapid sector scan, the GoA needs to take a strategic decision and acknowledge and clarify the roles of its agencies in investment promotion. Regardless of who takes the lead on attracting tourism investors to Armenia, there should be a clear division of roles for supporting institutions, and a framework for coordination between each stakeholder.<sup>84</sup> This includes supporting roles for a range of additional stakeholders such as the Ministry of Transportation (for Ground Transportation), Ministry of Health (for Medical Tourism), and so on.

<sup>84</sup> For example, the Jamaican IPA states here a specific role of the Jamaican Tourist Board <http://www.jamaicatradeandinvest.org/investment/incentives>. Another relevant example comes from the Philippines, which outlines the relationship between Ministry and IPA <http://www.visitmyphilippines.com/images/ads/a9d15892170a109493fdf5685c14d100.doc>



## 8. Recommendations and Next Steps

This section outlines action areas that need to be considered to successfully target FDI in tourism for Armenia. Based on the findings of the report, the following four next steps summarize the recommendations and suggest their sequencing.



### 8.1. Getting the Institutional Setting & Roles Right

Successful development of a sectoral investment promotion strategy or a plan, improvement of subsector value propositions and addressing investment climate barriers to tourism cannot be achieved without the right institutional setup. The GoA must ensure that it learns from good practice.

Business Armenia, the Tourism Committee and the Tourism Foundation as well as other relevant authorities each have specific roles to play in terms of designing and implementing reforms aimed at improving the Armenia tourism product, and in promoting Armenia's tourism sector to international investors. Yet, international good practice suggests that the IPA would typically take the lead role over investment promotion of tourism, as opposed to a tourism policy making authority which would be more involved in the reform process.

An inter-agency consultation should take place to decide about the specific roles in implementing findings of this report. Considerations should be given to the agencies' existing mandates (not just on paper but what they look like in practice), institutional and staff capacity for targeting tourism investors, but also longer-term aspirations of each agency to develop its own unique capabilities and expectations of how each stakeholder would interact with each other.

Moreover, there is a wide range of other institutions that potentially have a tourism investment promotion role to play, even if this is only providing minor support (such as Armenian Tourism Institute, Yerevan State University, International Training Center of Guides, Armenian Guides Guild, and other private sector associations).

### 8.2. Investment Promotion Action Plan for Tourism FDI

A key task in the next months is the planning and design of a tourism FDI action plan that would delineate the key priorities in terms of implementing the findings of this report, including on target FDI subsectors and markets, investment climate reforms, institutional roles, and KPIs. The agreed lead tourism investment organization would follow this step-by-

step process over the next 3-6 months, in order design such a plan:<sup>85</sup>

- Based on the findings of this report, launch a dialogue of key public and private stakeholders with the objective of reaching a high degree of consensus on the top subsectors with the highest potential to attract FDI into the tourism sector in Armenia;
- Define a brief FDI vision, mission and specific goals and targets to be achieved (KPIs) in tourism FDI;
- Develop an workplan with defined activities and roles to be played by public and privates stakeholders in building a tourism development integrated approach;
- Identify skills gaps and capacity building needed for tourism FDI promotion and strengthen the relevant agencies' investment promotion functions to provide marketing, information, assistance and advocacy services to potential investors (4x4 approach);
- Establish and agree on the budget requirements and funding to implement the action plan;
- Establish an appropriate monitoring and evaluation framework to measure and report progress against the goals of the new plan.

The action plan can be a standalone document or it could be an addition to Armenia's tourism strategy documents as long as it is endorsed by the main government agencies. Regardless of its form, it should be a practical document geared towards implementation and the achievement of concrete objectives.

### **8.3. Sector Value Propositions for “Ready to Go Subsectors”**

In parallel the Government should proceed with developing a first set of value propositions and using them as part of investor outreach. This report provides a draft targeting framework and includes short narratives of value propositions of these subsectors and identifies data needed for their enhancement. The WBG team can assist in this process and work with the designated agency on developing more detail propositions and targets for outreach.

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<sup>85</sup> A more detailed version of this type of approach is provided in appendix 3.

**Table 8: Targeting Framework**

<b>PRIORITY 1:</b> <b>‘Ready to Go’ Subsectors</b> <b>(Target in the Short Term)</b>	<b>PRIORITY 2:</b> <b>‘Aspirational’ Subsectors (Target in the</b> <b>Medium / Long Term)</b>	<b>Priority Markets</b>
<b>Hotels</b>	Winter infrastructure	<b>Germany, UK, USA. Air transport should also focus on airlines from target tourist markets</b>
<b>Bookings / reservations (technology led)</b>	Performing arts, spectator sports, & related (aligning to target tourist types, e.g. Adventure, Wine, etc.)	
<b>Air transport</b>	Museums, historical sites, & similar (aligning to target tourist types)	

### 8.4. Investment Climate Reforms to Improve the “Tourism Product”

Armenia must address the barriers faced across the pillars of the tourism product. This is relevant for all promising subsectors, but the aspirational category in particular.

Once the Governments makes a clear commitment to tourism investment promotion in a small set of these subsectors, it should align reform efforts accordingly. For example, if winter infrastructure is the priority, then roads that allow access to potential sites for this type of development are important. To some extent, the museums and historical sites subsector is further ahead in that the Tourism Committee is dedicating efforts toward developing 20 sites through PPP. At the same time, the other two subsectors can also offer significant value add.

The country has competitive natural endowments, but further efforts must be made to enhance and modernize them. Efforts to upgrade and modernize tourism attractions could help enhance the overall tourism product. PPPs could serve as a useful avenue for such efforts. Prioritizing the passage of effective PPP legislation will be key for the government’s efforts in this regard.

Tourism infrastructure needs improvement, especially as it also relates to connectivity. Road systems in disrepair which are a commonly cited issue, cause barriers for both domestic and international connectivity. Logistics is another area identified strongly by the ICB analysis. Addressing weaknesses in infrastructure and connectivity can have wide ranging positive spillover effects for all sectors of the economy. Additionally, Armenia is making efforts in terms of policies focused on international connectivity for air transport, and increased investment would be a way to address the remaining barrier in that area.

Skills and training improvements are required at multiple levels. First, the availability and quality of management schools that offer competitive tourism skills. Training should be increased to ensure that investors in this sector can meet their human resource needs. Additionally, language skills were commonly cited as insufficient, and such training should not only complement managerial programs but perhaps be encouraged as a broader education policy priority. Lastly, retaining skilled labor in the country is also a challenge that could be tackled through targeted instruments.

Multiple aspects of investment policy and investment climate must be considered, including access to finance, a range of regulatory issues such as investment incentives and tax regime, Government conduct and political risk, existing firm capabilities and competition policy. Consultations revealed that domestic firms faced barriers to accessing finance, which are also reflected in the ICB analysis, and international firms cited poor local market competition, another area reflected in the ICB analysis. The success of local firms and the policies that affect them play a role in ensuring foreign investors are able to easily operate in the economy and have supporting services and suppliers, and also affect Armenia's investment competitiveness. Addressing such enabling environment concerns will be an important part of the government's actions going forward.

Data collection for the sector needs to be enhanced. Such data is useful to investors to fully understand the tourism product, and it is critical for effective reform and promotional activities that must be undertaken as part of the tourism action plan.

## APPENDICES

### Appendix 1 - Sector Scan Evaluation Templates

Evaluation templates for each of the eleven subsectors are shown below.

#### Hotels

As a 'ready to go' subsector, qualitative commentary is provided in the main body of this report.

**Table 5: Analysis of Potential for FDI in Hotels in Armenia**

<b>Will additional FDI in HOTELS add value to Armenia?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	3	They primary gap is in midrange hotels in Yerevan, while tours quality hotels outside the capital are also required. There can be a shortage of rooms across the country in peak season, which the local SME offer is not able to meet.
2	Will new investors create additional jobs? Will investment contribute to job generation among women?	4	Typically FDI projects in hotels create more jobs than most other sector on average, with well over half of employees being women.
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	5	Extensive opportunities for suppliers, including catering, linens, furniture, hotel fit out, etc. Also other aspects such as HR resourcing.
4	Will new investors create increased export revenues or reduce imports?	4	Hotels are one of the key export areas within the tourism industry, hence additional hotels could see strong additional export revenues, assuming there is sufficient demand (see below).
5	Will new investors improve the performance of the value chain as a whole?	5	Hotels are fundamental to the value chain. Without accommodation, other aspects of the industry cannot function. This is indeed a challenge in some rural areas, where the lack of nearby accommodation means tour operators will not serve these attractions.
<b>SUBTOTAL</b>		<b>21</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>Does investment in HOTELS offer an attractive proposition for foreign investors?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>			
6	Is the local and regional market attractive?	5	By far the largest subsector for tourism FDI in the merging Europe region. Typical investors include Radisson, Hyatt, and Marriott. It has also seen the largest flow of FDI into Armenia than any other subsector, with solid growth in the number of hotels,

			both inside and outside Yerevan. Moreover, the growth in tourist number in Armenia over recent years is a clear indication of the opportunity. Wages paid to staff are in line with other subsectors.
7	Is the global market attractive?	5	Similar to the local / regional trend, the global tourism FDI market has hotel investment at its core.
<b>Does Armenia offer COMPETITIVE supply conditions for investors in HOTELS?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	3	Despite sustainability issues, Armenia does have a strong offer in terms of natural attractions, which therefore create interest from tourists. This in turn is attractive to the investors.
9	Does Armenia have competitive infrastructure?	2	The quality of Armenia's infrastructure is clearly a challenge, although it has mid-level global ranking in some areas. Relevant to hotels as much as other subsectors, the quality of transport infrastructure is a key challenge, and electricity to a lesser extent.
10	Does Armenia have competitive skills & supportive services?	2	While there is a strong customer-facing attitude among the workforce, nevertheless the availability of skills is variable in some places. The low ranking for the quality of management schools is particularly notable. While tourism specific education is taking place in Armenia, the numbers trained are quite small, therefore this does remain a gap in the Armenia offer.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	3	While interviews did not reveal major policy challenges for tourism investors, previous studies (including a cross-sector survey), have revealed there are issues that still need to be addressed. In hotels, one of these would be around construction permits.
<b>SUBTOTAL</b>		<b>20</b>	
<b>Evaluation key : 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>OVERALL TOTAL</b>		<b>41 / 55</b>	

### Bookings/reservations

As a 'ready to go' subsector, qualitative commentary is provided in the main body of this report.

**Table 6: Analysis of Potential for FDI in Bookings / Reservations in Armenia**

<b>Will additional FDI in BOOKINGS / RESERVATIONS add value to Armenia?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	4	Clearly there are existing bookings agents operating in Armenia, such that the tourism industry is able to operate. However, many of these use traditional methods, and there is more scope to introduce technology. For example, while GG is one ride-sharing service, it has been argued there is scope for more of this type of value added service.

2	Will new investors create additional jobs? Will investment contribute to job generation among women?	3	This is the lowest average job creator of all eleven subsectors examined, although where they are technology driven jobs, they will be of high value. At the same time, more traditional bookings companies employ the highest proportion of women of all the subsectors.
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	4	Technology solutions in particular can enable more suppliers in tourism to access the market to offer their services. In effect, an investment in bookings is a form of marketing across the industry, as it creates more exposure for these suppliers.
4	Will new investors create increased export revenues or reduce imports?	3	Data suggests that existing value of exports here may be low, although the quality of this data is an issue. If ICT is taken as a whole, it is the third largest service export from Armenia (after Travel and Transport) at US\$173m in 2016.
5	Will new investors improve the performance of the value chain as a whole?	3	Bookings agents have a strong influence on the value chain, as they are in effect a link between the different tourist services – they allows the tourist to access flights, hotels, tours, etc., although clearly some of these services are accessed outside of the country in advance (such as flights), and this will not change.
<b>SUBTOTAL</b>		<b>17</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>Does investment in BOOKINGS / RESERVATIONS offer an attractive proposition for foreign investors?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>			
6	Is the local and regional market attractive?	4	Bookings companies are the third largest in terms of FDI projects in select ECA countries. A key example includes Booking.com investing in Georgia in 2015. However, in terms of FDI capex into Armenia, the value of investment in the country has been relatively small. Wages are would be in line with other subsectors, although would likely be higher in technology driven activities.
7	Is the global market attractive?	4	Similar to the local / regional trend, the subsector is the third largest creator of FDI projects globally.
<b>Does Armenia offer COMPETITIVE supply conditions for investors in BOOKINGS / RESERVATIONS?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	3	Despite sustainability issues, Armenia does have a strong offer in terms of natural attractions, which therefore create interest from tourists. This in turn is attractive to the investors.
9	Does Armenia have competitive infrastructure?	3	The quality of Armenia's infrastructure is clearly a challenge, although it has mid-level global ranking in some areas. This includes ICT infrastructure, of particular relevance to bookings companies.
10	Does Armenia have competitive skills & supportive services?	3	While there is a strong customer-facing attitude among the workforce, nevertheless the availability of skills is variable in some places. It is also difficult to access data specifically around ICT workforce skills. However,

			anecdotal information suggests there is a thriving ICT sector, implying that such skills can be accessed.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	3	While interviews did not reveal major policy challenges for tourism investors, previous studies (including a cross-sector survey), they have revealed there are issues that still need to be addressed. Given that bookings companies do not require the types of construction / operating procedures of airlines or hotels for example, entry into the market is likely to be easier for such companies. At the same time, regulations related to ride sharing services are a hindrance for other entrants.
<b>SUBTOTAL</b>		<b>20</b>	
<b>Evaluation key : 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>OVERALL TOTAL</b>		<b>37 / 55</b>	

### Other supporting services / suppliers

Consultations suggested a lack of variety in suppliers, for example, in terms of food for hotels or HR recruitment companies. For example, hotels in other countries will use temporary staffing from recruitment agencies when occupancy is above normal levels (such as during events), but that solution is not currently available in Armenia.

**Table 7: Analysis of Potential for FDI in Other Supporting Services / Suppliers in Armenia**

<b>Will additional FDI in OTHER SUPPORTING SERVICES / SUPPLIERS add value to Armenia?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	3	Suppliers to key tourism subsectors, such as suppliers to hotels are relatively well established in Armenia. However, there are gaps, one example being HR firms to supply temporary staff during spikes in tourists. Moreover certain supplies need to be imported such as various types of furniture (for hotels) and equipment.
2	Will new investors create additional jobs? Will investment contribute to job generation among women?	4	Estimates of job creation are based on “other amusement & recreation industries”, which shows more than 150 jobs per FDI project globally. The subsector is also the second highest employer of women.
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	3	As this subsector is an enabler of other subsectors, particularly hotels, then improvements here that come from investors will help the industry in general, including hotels. However, there may also be a risk of crowding out existing suppliers, as the market for each service (e.g. supplying linen) currently has a relatively small number of companies
4	Will new investors create increased export revenues or reduce imports?	2	Based on a proxy of “travel –other services”, the data implies that exports have good potential. However, in reality these suppliers will be proving to other tourism companies within Armenia, therefore exports are unlikely to be significant. At the same time, there may be some scope for a reduction in imports if activities



			like the manufacturing of linen, etc. take place in Armenia.
5	Will new investors improve the performance of the value chain as a whole?	2	New investors in the segment are likely to improve the value chain in hotels, but it is unclear if there are other areas of benefit.
<b>SUBTOTAL</b>		<b>14</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>Does investment in OTHER SUPPORTING SERVICES / SUPPLIERS offer an attractive proposition for foreign investors?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>			
6	Is the local and regional market attractive?	2	There is little evidence of significant foreign investment in this subsector in select ECA countries. However, there is evidence so slight growth in service activities FDI specifically to Armenia. Prices are similar to those in other sectors.
7	Is the global market attractive?	2	Similar to the above, there are few FDI projects in this sector. However, it should be borne in mind that companies in this sector may not necessarily be considered as tourism companies. For example, a supplier of linens could be considered a textiles company, and would not be recorded in tourism-focused data. Within HR, typical investors could include Adecco, Randstad, or Manpower.
<b>Does Armenia offer COMPETITIVE supply conditions for investors in OTHER SUPPORTING SERVICES / SUPPLIERS?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	3	Natural endowments are of limited importance in this subsector.
9	Does Armenia have competitive infrastructure?	2	The quality of Armenia's infrastructure is clearly a challenge, although it has mid-level global rankings in some areas.
10	Does Armenia have competitive skills & supportive services?	2	The availability of skills is variable in some places, although it is difficult to analyze in this subsector, because suppliers can be in a range of different areas.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	3	While interviews did not reveal major policy challenges for tourism investors, previous studies (including a cross-sector survey), have revealed there are issues that still need to be addressed.
<b>SUBTOTAL</b>		<b>14</b>	
<b>Evaluation key : 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>OVERALL TOTAL</b>		<b>28 / 55</b>	

### Air transport

As a 'ready to go' subsector, qualitative commentary is provided in the main body of this report.

**Table 8: Analysis of Potential for FDI in Air Transport in Armenia**

<b>Will additional FDI in AIR TRANSPORT add value to Armenia?</b>		
	<b>To what extent</b>	<b>Score Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	5 There are local airlines largely serving Russia, although international airlines are more prominent. However, there are significant gaps, particularly in terms of services to Europe, which new investors could fill.
2	Will new investors create additional jobs? Will investment contribute to job generation among women?	2 Globally, air transport is smaller direct job creator than many other subsectors. Particularly if the airline does not establish an office, but instead only service staff within an airport. That said, the more airlines present, the more service staff that the airport itself will need to employ or sourced through suppliers (e.g. baggage handlers, catering, etc.). Specifically to the actual airline, female employment is comparatively low.
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	5 Similar to hotels, airlines are a key component of the value chain, without which the industry cannot function (particularly, in the context of limited road / rail travel options).
4	Will new investors create increased export revenues or reduce imports?	3 While spend on airfares are a major element of a tourist's budget, this spend will not normally be seen as an export as it will have originated outside of Armenia. However, data shows exports of air transport services still reached US\$33m in 2016.
5	Will new investors improve the performance of the value chain as a whole?	2 Again similarly to hotels, airlines investors will enable the value chain to operate. However, investors here may not directly affect performance of the value chain beyond bring more tourists to Armenia and thus a higher expectation from tourists on the services they will receive.
<b>SUBTOTAL</b>		<b>17</b>
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>		
<b>Does investment in AIR TRANSPORT offer an attractive proposition for foreign investors?</b>		
	<b>To what extent</b>	<b>Score Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>		
6	Is the local and regional market attractive?	4 After hotels, this is the second highest subsector in terms of number of investments in select ECA countries. While the segment is still small in Armenia, as shown in FDI inflows data and discussed as a key challenge for tourism overall, growth in passengers has been at an average 10% year-on-year for the past 5 years. The costs of workers are at the higher end within the sector.
7	Is the global market attractive?	4 At the global level, this the second largest source of tourism FDI projects, although a long way behind hotels.

<b>Does Armenia offer COMPETITIVE supply conditions for investors in AIR TRANSPORT?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	3	Natural endowments are of limited importance in this subsector.
9	Does Armenia have competitive infrastructure?	3	Air transport specific infrastructure is mid-ranking globally (although the WEF and WEF Tourism assessment do differ). Zvartsnots is a modern airport, although this and Shirak airport are the only options for international tourists.
10	Does Armenia have competitive skills & supportive services?	3	While there is a strong customer-facing attitude among the workforce, nevertheless the availability of skills is variable in some places. Skills specific for airline travel are unavailable.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	3	While interviews did not reveal major policy challenges for tourism investors, previous studies (including a cross-sector survey), have revealed there are issues that still need to be addressed. However, the key issue for this subsector was addressed in 2013 with the Open Skies policy, such that there is easier access for foreign airlines. At the same time, passenger levies could be reduced, such that fares could be lowered.
<b>SUBTOTAL</b>		<b>20</b>	
<b>Evaluation key : 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>OVERALL TOTAL</b>		<b>37 / 55</b>	

### Rail transport

There may be limited opportunities for a rail operator, as the rail infrastructure does not exist on a sufficiently large scale. At the same time, a newly launched express rail service is now operating between Yerevan and Gyumri. South Caucasus Railways (a subsidiary of Russian Railways) has the sole concession for managing the rail network and providing rail services, with 30-year lease that started in 2008 from the Armenian Government extendable by 20 years. While in principle provisions for open access to rail infrastructure exists, methods for calculation of access charges and the actual charges have not yet been published<sup>86</sup>.

**Table 9: Analysis of Potential for FDI in Rail Transport in Armenia**

<b>Will additional FDI in RAIL TRANSPORT add value to Armenia?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	4	There is currently only one rail operator in the country, so in this sense, a new investor could add value to what is currently being provided.
2	Will new investors create additional jobs? Will investment contribute to job generation	1	Rail transport investors create a similar number of jobs on average to that of air transport. However, the proportion of women employed tends to be very low.

<sup>86</sup> World Bank Concept Note: A Reform Assessment on Competition in Armenia: Fostering Market Contestability for Productivity and Prosperity, 2018

	among women?		
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	2	Rail freight transport can help suppliers to better service the country. However, the presence of another rail operator in itself may not provide more opportunities for existing local firms.
4	Will new investors create increased export revenues or reduce imports?	2	Rail transport can support increased exports of freight, but is less of factor in term of tourism-related exports, as shown in the data.
5	Will new investors improve the performance of the value chain as a whole?	2	There would be limited overall effect on the overall value chain for a rail operator, unless this created a viable alternative to road transport for tourists.
<b>SUBTOTAL</b>		<b>11</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>Does investment in RAIL TRANSPORT offer an attractive proposition for foreign investors?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>			
6	Is the local and regional market attractive?	3	There have a reasonable number of investments in rail to select ECA countries, and the general data on transportation FDI in Armenia is relatively positive. Prices of staff are similar to the rest of the sector.
7	Is the global market attractive?	3	As with the regional picture, there is some evidence investment in rail globally, ranking around halfway with in the subsectors.
<b>Does Armenia offer COMPETITIVE supply conditions for investors in RAIL TRANSPORT?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	3	Natural endowments are of limited importance in this subsector.
9	Does Armenia have competitive infrastructure?	2	This the key issue within rail. While the rail infrastructure is ranked 64 <sup>th</sup> by WEF, rail lines do not extend to the while country, and this is a key limiting factor.
10	Does Armenia have competitive skills & supportive services?	3	While there is a strong customer-facing attitude among the workforce, nevertheless the availability of skills is variable in some places. Skills specific for rail travel are unavailable.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	2	While interviews did not reveal major policy challenges for tourism investors; previous studies (including a cross-sector survey), have revealed there are issues that still need to be addressed. The key issue in rail is that while in principle provisions for open access to rail infrastructure exists, methods for calculation of access charges and the actual charges have not yet been published by the regulator.
<b>SUBTOTAL</b>		<b>16</b>	
<b>Evaluation key : 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			

<b>OVERALL TOTAL</b>	<b>27 / 55</b>
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### Road transport

There is a general need for better quality tour buses, but also for bus transport from town to town (companies such as Megabus or Terravision for example). The transport network within Yerevan also requires significant investment, but this is a larger scale requirement that may require a PPP solution.

**Table 10: Analysis of Potential for FDI in Road Transport in Armenia**

<b>Will additional FDI in ROAD TRANSPORT add value to Armenia?</b>		
	<b>To what extent</b>	<b>Score Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	4 While there is a gap in the broader Yerevan transport network, a particular gap here may be in intercity bus travel, run by a private bus company investors. There may also be scope for other bus company tourist operators, running higher quality services.
2	Will new investors create additional jobs? Will investment contribute to job generation among women?	2 Road transport investors are a relatively small job creator, while less than 40% of the workforce tend to be women.
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	2 As with rail, freight transport can help suppliers to better service the country. However, the presence of a truck or (tourist) bus operator itself may not provide more opportunities for existing local firms.
4	Will new investors create increased export revenues or reduce imports?	2 Again as with rail, road transport can support increased exports of freight, but is less of factor in term of tourism-related exports, as shown in the data.
5	Will new investors improve the performance of the value chain as a whole?	3 Additional road transport operators themselves are unlikely to improve the value chain, as there are related to infrastructure challenges (see below).
<b>SUBTOTAL</b>		<b>13</b>
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>		
<b>Does investment in ROAD TRANSPORT offer an attractive proposition for foreign investors?</b>		
	<b>To what extent</b>	<b>Score Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>		
6	Is the local and regional market attractive?	2 There have been very few FDI investments in road to select ECA countries, although the general data on transportation FDI in Armenia is relatively positive. Prices of staff are similar to the rest of the sector.
7	Is the global market attractive?	2 As with the regional picture, there have been relatively few investments in road transport FDI globally.
<b>Does Armenia offer COMPETITIVE supply conditions for investors in ROAD TRANSPORT?</b>		

8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	3	Natural endowments are a challenge in this sector, in the sense that mountainous areas are more difficult to build roads around. However, it is questionable whether this in itself would discourage bus operator investors.
9	Does Armenia have competitive infrastructure?	2	Consultations have cited roads as a key issue for tourism, although some suggested they were no worse than other tourist destinations. Nevertheless, the WEF ranking for road infrastructure is worse than for rail.
10	Does Armenia have competitive skills & supportive services?	3	While there is a strong customer-facing attitude among the workforce, nevertheless the availability of skills is variable in some places. Skills specific for road travel are unavailable.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	3	While interviews did not reveal major policy challenges for tourism investors, previous studies (including a cross-sector survey) have revealed there are issues that still need to be addressed. The key issue for roads is to gain funding, and then to maintain roads at a good quality once they are constructed. Some new roads enabling tourists tours have been built, which is positive.
<b>SUBTOTAL</b>		<b>15</b>	
<b>Evaluation key : 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>OVERALL TOTAL</b>		<b>28 / 55</b>	

### Performing arts, spectator sports, & related

As an 'aspirational' subsector, qualitative commentary is provided in the main body of this report.

**Table 11: Analysis of Potential for FDI in Performing Arts, Spectator Sports, & Related in Armenia**

<b>Will additional FDI in PERFORMING ARTS, SPECTATOR SPORTS, &amp; RELATED add value to Armenia?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	2	New investors in this space may more typically be in terms of infrastructure development (e.g. concert hall, stadium), then an investor in these activities themselves. Hence this would be focused on construction rather than tourism per se, and Armenian tourism is focused on what it already offers (be it in churches, outdoor tourism, etc.).
2	Will new investors create additional jobs? Will investment contribute to job generation among women?	3	The subsector is a relatively high job creator, although much of this may typically be in the construction of the site, which are not permanent jobs. In terms of actual operation, female employees tend to make up close to half the workforce.
3	Will new investors increase opportunities for domestic firms to supply their goods/services to	4	Attractions in general that bring more tourists would be expected to have a positive effect on surrounding suppliers, such as nearby hotels and restaurants.

	foreign investors?		
4	Will new investors create increased export revenues or reduce imports?	4	Export revenues should be relatively strong here given the attractions are ultimately what the tourist is travelling for. This subsector in particular would likely charge higher ticket fees than others such as natural attractions.
5	Will new investors improve the performance of the value chain as a whole?	3	This is the end of the value chain, but can improve performance by proving an experience that brings more tourists to the country.
<b>SUBTOTAL</b>		<b>16</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>Does investment in PERFORMING ARTS, SPECTATOR SPORTS, &amp; RELATED offer an attractive proposition for foreign investors?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>			
6	Is the local and regional market attractive?	3	There have been a reasonable number of investments into the subsector in select ECA countries, and there is strong growth domestically in these types of services.
7	Is the global market attractive?	3	The fourth largest of the subsectors in terms of FDI project numbers, although significantly behind the top three.
<b>Does Armenia offer COMPETITIVE supply conditions for investors in PERFORMING ARTS, SPECTATOR SPORTS, &amp; RELATED?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	3	Natural endowments are not really an issue in this subsector, given there would normally need to be construction associated.
9	Does Armenia have competitive infrastructure?	2	Overall infrastructure has a mid-level ranking in WEF, although cultural resources are ranked low at 99 <sup>th</sup> .
10	Does Armenia have competitive skills & supportive services?	3	While there is a strong customer-facing attitude among the workforce, nevertheless the availability of skills is variable in some places.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	3	While interviews did not reveal major policy challenges for tourism investors, previous studies (including a cross-sector survey), have revealed there are issues that still need to be addressed. As with hotels, one of these would be around construction permits.
<b>SUBTOTAL</b>		<b>17</b>	
<b>Evaluation key : 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>OVERALL TOTAL</b>		<b>33/ 55</b>	

### Other amusement & recreation industries

This subsector can cover a number of areas:

- **Festivals** are a new category in Armenia, but they are expanding rapidly, with more than 20 now taking place, of which 80% are outside Yerevan.

However, these may need to be larger scale than currently available to attract foreign investment.

- Two consultations did suggest increasing demand for **business tourism** conferences, including those outside traditional hotel venues, although high quality hotels with conference space do exist together with several expo centers. Some of the most significant annual events held in Armenia include Armenia Expo, and Caucasus: Building and Construction expos. Armenia Travel +M company is an example of an existing company with has significant experience in organizing business events: corporate tours, incentive tours, off-site seminars, sessions, conferences, trainings, etc., and there are various other domestic companies also in this space.
- **Experiences**, such as hot air balloon rides, paragliding, etc., with a focus on further attracting younger tourists. One of the largest recent investments was the “Wings of Tatev” tramway and Tatev Revival Project – a US\$22m investment, which is a public-private partnership<sup>87</sup>. Indeed, the FDI opportunity may largely be around PPP opportunities that involve infrastructure development.
- The Government program for 2017-2022 included **medical tourism** among its priorities. While funding to support this is likely limited in the immediate future, Ministry of Health data suggests demand for international clinics – the recently opened Wigmore clinic is an example of this. With development of medical tourism, other activities would be developed such as those related to insurance. However, while attracting medical tourists may be worthwhile and the Ministry of Health would also like to have some involvement here, it is debatable whether attracting corresponding clinics and similar should be seen as tourism, rather than healthcare investment promotion. Moreover, a detailed analysis of the opportunities in medical tourism would require analysis for the country’s healthcare sector offer. However, it should be noted that medical tourism represents less than 5% of domestic tourists, and the number actually fell from 2016 to 2017.
- Beyond medical tourism, **wellness tourism** is a related area where Armenia is endowed with spa resources and a medicinal climate. However, commercialization requires very significant investments in infrastructure and brand building<sup>88</sup>.
- Wineries, which also provide tours. **Wine tourism** is of increasing interest to the Armenian government, and a range of tours are available, including for high end experiences. As with other areas, one of the major challenges is in marketing, to help ensure that tourists are made aware of Armenia as a wine region. There may be potential in attracting wine operators,

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<sup>87</sup> Armenia: South Corridor Tourism Development Strategy, March 2015

<sup>88</sup> Tourism Strategy for Armenia 2007 – 2030, Prepared for the Ministry of Trade and Economic Development



although as discussed above, this may arguably be more of an agribusiness investor opportunity.

**Table 12: Analysis of Potential for FDI in Other Amusement & Recreation Industries in Armenia**

<b>Will additional FDI in OTHER AMUSEMENT &amp; RECREATION INDUSTRIES add value to Armenia?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	2	Yes, in the sense that this subsector is a catch-all of activities / experiences that are not covered elsewhere.
2	Will new investors create additional jobs? Will investment contribute to job generation among women?	3	Estimates of job creation are that more than 150 jobs per FDI project are created globally, but this will vary significantly by project. Female employees tend to make up close to half the workforce.
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	3	Attractions in general that bring more tourists would be expected to have a positive effect on surrounding suppliers, such as nearby hotels and restaurants. However, it is highly dependent on the actual investment. A new medical clinic for example would offer broad supplier opportunities, a hot air balloon 'experience' would offer relatively few.
4	Will new investors create increased export revenues or reduce imports?	3	Export revenues should be relatively strong here given the attractions are ultimately what the tourist is traveling for. As above, it is dependent on the specific attraction.
5	Will new investors improve the performance of the value chain as a whole?	3	This is the end of the value chain, but can improve performance by proving an experience that brings more tourists to the country. The same logic applies depending on the nature of the attraction.
<b>SUBTOTAL</b>		<b>14</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>Does investment in OTHER AMUSEMENT &amp; RECREATION INDUSTRIES offer an attractive proposition for foreign investors?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>			
6	Is the local and regional market attractive?	2	There is strong growth domestically in attractions-related services in Armenia. However, evidence of FDI in select ECA countries is quite limited.
7	Is the global market attractive?	2	As above, the evidence of FDI investment globally here is quite weak.
<b>Does Armenia offer COMPETITIVE supply conditions for investors in OTHER AMUSEMENT &amp; RECREATION INDUSTRIES?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	3	Armenia has reasonably strong natural endowments, on which investors could develop attractions.
9	Does Armenia have competitive	3	Overall infrastructure has a mid-level ranking in WEF,

	infrastructure?		although cultural resources are ranked low at 99 <sup>th</sup> . At the same time, there are good examples of infrastructure for business tourism.
10	Does Armenia have competitive skills & supportive services?	3	While there is a strong customer-facing attitude among the workforce, nevertheless the availability of skills is variable in some places. Quality of staff training is a weakness, given specialized training may be required for certain attractions.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	3	While interviews did not reveal major policy challenges for tourism investors, previous studies (including a cross-sector survey), have revealed there are issues that still need to be addressed. A challenge in this subsector may be accessing funding, although typically this may be more an issue for the domestic, rather than foreign investor.
<b>SUBTOTAL</b>		<b>16</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>OVERALL TOTAL</b>		<b>30/ 55</b>	

### Museums, historical sites, & similar

As an ‘aspirational’ subsector, qualitative commentary is provided in the main body of this report.

**Table 13: Analysis of Potential for FDI in Museums, Historical Sites, & Similar in Armenia**

<b>Will additional FDI in MUSEUMS, HISTORICAL SITES, &amp; SIMILAR add value to Armenia?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	3	Armenia has a strong existing offer of museums, churches and cultural sites. However, the gap where investors might add value is in commercializing these sites into more developed, interactive attractions, where culturally appropriate.
2	Will new investors create additional jobs? Will investment contribute to job generation among women?	4	Estimates of job creation are strong globally, at more than 450 per project. Female employees tend to make up slightly more than half the workforce.
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	4	Attractions in general that bring more tourists would be expected to have a positive effect on surrounding suppliers, such as nearby hotels and restaurants.
4	Will new investors create increased export revenues or reduce imports?	3	Export revenues should be relatively strong here given the attractions are ultimately what the tourist is traveling for. Export revenues here may depend on the type of investment, i.e. a larger scale resort type investment, such as a castle would charge higher fees than a museum.
5	Will new investors improve the performance of the value chain as	3	This is the end of the value chain, but can improve performance by providing an experience that brings

	a whole?		more tourists to the country.
	<b>SUBTOTAL</b>	<b>17</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>Does investment in MUSEUMS, HISTORICAL SITES, &amp; SIMILAR offer an attractive proposition for foreign investors?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>			
6	Is the local and regional market attractive?	2	There is strong growth domestically in attractions-related services in Armenia. However, evidence of FDI in select ECA countries is quite limited.
7	Is the global market attractive?	2	As above, the evidence of FDI investment globally here is quite weak, although there a few examples.
<b>Does Armenia offer COMPETITIVE supply conditions for investors in MUSEUMS, HISTORICAL SITES, &amp; SIMILAR?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	4	Armenia has strong natural endowments, in particular in relation to historical sites (e.g. monasteries).
9	Does Armenia have competitive infrastructure?	2	Overall infrastructure has a mid-level ranking in WEF, although cultural resources are ranked low at 99 <sup>th</sup> .
10	Does Armenia have competitive skills & supportive services?	3	While there is a strong customer-facing attitude among the workforce, nevertheless the availability of skills is variable in some places, including for specifically working in museums.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	3	While interviews did not reveal major policy challenges for tourism investors, previous studies (including a cross-sector survey), have revealed there are issues that still need to be addressed. Access to finance is one, although this is more of a domestic issue.
	<b>SUBTOTAL</b>	<b>16</b>	
<b>Evaluation key : 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
	<b>OVERALL TOTAL</b>	<b>33/ 55</b>	

## Natural attractions

Nature is cited by 69% of tourists as the primary reason for choosing Armenia as a vacation destination<sup>89</sup>. This includes 33 national parks and protected areas<sup>90</sup>.

The Armenian government has a strong focus on the opportunities for increased tourism related to outdoor activities. This includes mountain climbing, horse riding, paragliding, off-roading, hiking, trekking, skiing, and rafting. In fact, one of the most successful tourist resorts

<sup>89</sup> Tourism Strategy for Armenia 2007 – 2030, Prepared for the Ministry of Trade and Economic Development

<sup>90</sup> International bank for reconstruction and development project appraisal document on a proposed loan in the amount of US\$55 million to the republic of Armenia for a local economy and infrastructure development project, December 1, 2015

in Armenia is the Yell Extreme Park. This resort is actually funded through foreign equity. There are also numerous tour operators that make use of the country's natural attractions.

While adventure assets are relatively easy to commercialize, building Armenia's brand in this field over time and overcoming international competition will be the main challenges<sup>91</sup>. For foreign investors, the opportunity may lie in resorts like Yell, or otherwise again in technology driven solutions. A UNWTO - Global Report on Adventure Tourism asked the question: "how did adventure travelers prepare for their trip today"? The main approach from 69% of respondents was by researching online, with the next approach being 44% consulting with friends and family<sup>92</sup>. Areas of existing technology include a web portal created to feature the virtual version of a hiking trail, along with five smart-phone applications with social media integration, and an online directory providing an inclusive list of tourism service providers<sup>93</sup>.

**Table 14: Analysis of Potential for FDI in Natural Attractions in Armenia**

<b>Will additional FDI in NATURAL ATTRACTIONS add value to Armenia?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
1	Will new investors add value that is not already provided by local firms & existing investors?	2	The draw with natural attractions is precisely that they are not man-made. While there is more scope for tour operators to capitalize on these attractions, the argument for FDI specifically in this subsector is weak, beyond resorts (which could be classed as hotels) and in technology (that can cut across subsectors).
2	Will new investors create additional jobs? Will investment contribute to job generation among women?	2	A proxy has been used here of 'other amusement & recreation industries', which suggests relatively high employment, but in reality this may be unlikely for investments related to natural attractions.
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	4	Attractions in general that bring more tourists would be expected to have a positive effect on surrounding suppliers, such as nearby hotels and restaurants.
4	Will new investors create increased export revenues or reduce imports?	3	Export revenues should be relatively strong here given the attractions are ultimately what the tourist is traveling for. However, the challenge here is to identify what type of investment project this would typically look like.
5	Will new investors improve the performance of the value chain as a whole?	3	This is the end of the value chain, but can improve performance by proving an experience that brings more tourists to the country.
<b>SUBTOTAL</b>		<b>14</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>Does investment in NATURAL ATTRACTIONS offer an attractive proposition for foreign investors?</b>			

<sup>91</sup> Source: Tourism Strategy for Armenia 2007 – 2030

<sup>92</sup> Source: Armenian Adventure Travel Association Rural Adventure Centers In Armenia, May 2017

<sup>93</sup> Source: USAid Enterprise Development And Market Competitiveness Project Final Report, December 2014

	To what extent	Score	Evidence
<b>Is the market (in terms of demand, supply and prices) attractive?</b>			
6	Is the local and regional market attractive?	2	There is strong growth domestically in attractions-related services in Armenia. However, evidence of FDI in select ECA countries is limited.
7	Is the global market attractive?	2	As above, the evidence of FDI investment globally here is quite weak.
<b>Does Armenia offer COMPETITIVE supply conditions for investors in NATURAL ATTRACTIONS?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	4	Armenia has strong natural endowments, in terms of national parks, etc.
9	Does Armenia have competitive infrastructure?	2	Overall infrastructure has a mid-level ranking in WEF, although a key challenge here is related to roads, as accessing attractions in parts of the country can be difficult.
10	Does Armenia have competitive skills & supportive services?	3	While there is a strong customer-facing attitude among the workforce, nevertheless the availability of skills is variable in some places.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	3	While interviews did not reveal major policy challenges for tourism investors, previous studies (including a cross-sector survey), have revealed there are issues that still need to be addressed.
<b>SUBTOTAL</b>		<b>16</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>OVERALL TOTAL</b>		<b>30/ 55</b>	

### Winter infrastructure

The government's key focus in this subsector is to further develop winter ski tourism. As with hotels, a winter resort can act as an anchor investment to develop a cluster<sup>94</sup>. The number of areas with conditions of various quality for mountain skiing in Armenia is quite extensive<sup>95</sup>, but developing of a resort is expensive, so either requires a major large scale investor, or perhaps consideration of a PPP solution.

**Table 15: Analysis of Potential for FDI in Winter Infrastructure in Armenia**

<b>Will additional FDI in WINTER INFRASTRUCTURE add value to Armenia?</b>			
	To what extent	Score	Evidence
1	Will new investors add value that is not already provided by local firms & existing investors?	4	There is relatively limited winter tourism currently taking place in Armenia, therefore foreign investors in this space would fill a gap.

<sup>94</sup> Source: Facilitating Large-Scale Tourism Resorts in Mozambique: The Tourism Investment Generation Approach, IFC, 2012

<sup>95</sup> Source: Tourism Strategy for Armenia 2007 – 2030, Prepared for the Ministry of Trade and Economic Development

2	Will new investors create additional jobs? Will investment contribute to job generation among women?	4	Depending on the actual investment, there is good potential for job creation – in particular for a resort (essentially the same as for hotels). Female employees make up around half the workforce.
3	Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	3	Potential opportunities for suppliers, depending on the nature of the investment.
4	Will new investors create increased export revenues or reduce imports?	3	Export revenues should be relatively strong here given the attractions are ultimately what the tourist is traveling for. However, specific data on winter tourism is unavailable.
5	Will new investors improve the performance of the value chain as a whole?	5	The subsector could extensively improve the value chain, as it will move Armenia away from being a seasonal (i.e. spring / summer) destination.
<b>SUBTOTAL</b>		<b>19</b>	
<b>Evaluation key: 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>Does investment in WINTER INFRASTRUCTURE offer an attractive proposition for foreign investors?</b>			
	<b>To what extent</b>	<b>Score</b>	<b>Evidence</b>
<b>Is the market (in terms of demand, supply and prices) attractive?</b>			
6	Is the local and regional market attractive?	3	There is strong economic growth domestically in ‘services, arts, entertainment and recreation’ in Armenia. However, evidence of FDI in select ECA countries is limited, although stronger if the subsector is defined as part of ‘amusements & theme parks’, where 16 projects were recorded in the timeframe.
7	Is the global market attractive?	3	As above, the evidence of FDI investment globally is stronger if defined as ‘amusements & theme parks’
<b>Does Armenia offer COMPETITIVE supply conditions for investors in WINTER INFRASTRUCTURE?</b>			
8	Does Armenia have competitive natural endowments (climate, attractions, etc.)	4	Armenia has strong natural endowments, in terms of mountains and the climate for skiing, etc.
9	Does Armenia have competitive infrastructure?	2	Overall infrastructure has a mid-level ranking in WEF, although a key challenge here is related to roads, as accessing winter infrastructure in parts of the country may be difficult.
10	Does Armenia have competitive skills & supportive services?	3	While there is a strong customer-facing attitude among the workforce, nevertheless the availability of skills is variable in some places.
11	Does Armenia offer a conducive business (regulatory/institutional) environment?	3	While interviews did not reveal major policy challenges for tourism investors, previous studies (including a cross-sector survey), have revealed there are issues that still need to be addressed.
<b>SUBTOTAL</b>		<b>37</b>	
<b>Evaluation key : 5=very positive 4=positive 3=neutral 2=negative 1=very negative</b>			
<b>OVERALL TOTAL</b>		<b>38/ 55</b>	

## Appendix 2 – Investment Competitiveness Benchmarking (ICB)

The indicators in the below table are sorted based on the tourism FDI competitiveness framework to address pillars 2 – 4, on the issues of infrastructure and connectivity, human resources, and investment policy and climate. The cells are color coded, where dark red indicates areas where Armenia faces significant constraints and thus barriers to investment in that area compared to countries that have successfully attracted investment (the full methodology follows the ICB analysis table). Lighter red indicates there are fewer constraints, yellow indicates areas where there are constraints, but ones that could be addressed with a limited number of policy reforms, light green indicates a small number of barriers that allow Armenia to still be competitive and dark green indicate that Armenia faces no barriers in that specific area. This analysis focuses on the Tourism Cluster (containing Hotels & Tourism, Leisure & Entertainment, and Transportation Sectors<sup>96</sup>) as a whole and consolidates as the various business activities of the tourism cluster to generalize for tourism related investment as a whole. These indicators, focused on investment benchmarking, directly complement the WEF Travel & Tourism Competitiveness indicators to provide a full picture of the barriers faced by Armenia in attracting FDI to tourism.

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<sup>96</sup> These sector breakdowns use the fDi Markets database sector classifications, and Tourism Cluster classification.

**Table 20: ICB Analysis (Pillars 2 and 3, and Pillar 4)**

	Indicator:	Pillar 2: Infrastructure & Connectivity				Pillar 3: Human Resources				
		Access to electricity (% of population)	Time (days) required to get electricity	Timeliness of intl shipments	Tracking and tracing of shipments	Labor force, total	Quality of management schools, 1-7 (best)	Extent of staff training, 1-7 (best)	Country capacity to attract talent, 1-7 (best)	Country capacity to retain talent, 1-7 (best)
		World Development Indicators	Doing Business	Logistics Performance Index	Logistics Performance Index	World Development Indicators	WEF: Global Information Technology Report	WEF: Global Information Technology Report	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index
Touism Cluster Sector	Business Activity									
Hotels & Tourism	Construction	3	3	3	3	3	3	3	3	3
Hotels & Tourism	Customer Contact Centre	4	1	1	1	1	1	2	2	1
Hotels & Tourism	Headquarters	3	1	1	1	1	1	1	1	1
Hotels & Tourism	Sales, Marketing & Support	3	3	3	3	3	3	4	4	3
Leisure & Entertainment	Construction	4	3	2	1	1	1	1	1	1
Leisure & Entertainment	Retail	3	1	1	1	1	1	4	4	4
Leisure & Entertainment	Sales, Marketing & Support	3	3	1	1	1	1	2	1	1
Transportation	Customer Contact Centre	1	1	1	1	1	1	1	1	1
Transportation	Headquarters	4	1	1	1	2	2	2	2	1
Transportation	Logistics, Distribution & Transportation	3	3	4	3	3	3	4	4	4
Transportation	Maintenance & Servicing	1	1	1	1	1	1	1	1	1
Transportation	Sales, Marketing & Support	3	3	4	3	3	3	4	4	4
Transportation	Shared Services Centre	1	1	1	1	1	1	1	1	2

	Indicator:	Pillar 4: Investment Policy & Climate																		
		Access to Finance			Policy, Legal & Regulatory Issues				Firm Capabilities					Competition						
		Domestic credit provided by financial sector (% of GDP)	Ease of access to loans, 1-7 (best)	Financing through local equity market, 1-7 (best)	Corruption (F)	Political Risk Rating	Bureaucracy Quality (L)	Time to pay taxes (hrs/year)	Intellectual property protection, 1-7 (best)	Judicial independence, 1-7 (best)	Production process sophistication, 1-7 (best)	State of cluster development, 1-7 (best)	Local supplier quality, 1-7 (best)	Local supplier quantity, 1-7 (best)	Business Sophistication	Company spending on R&D, 1-7 (best)	Firm-level technology absorption, 1-7 (best)	Effectiveness of anti-monopoly policy, 1-7 (best)	Extent of market dominance, 1-7 (best)	Intensity of local competition, 1-7 (best)
World Development Indicators	Economic Forum Global Competitiveness Index	Economic Forum Global Competitiveness Index	ICRG	ICRG	ICRG	Doing Business	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	World Economic Forum Global Competitiveness Index	
Touism Cluster Sector	Business Activity																			
Hotels & Tourism	Construction	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Hotels & Tourism	Customer Contact Centre	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Hotels & Tourism	Headquarters	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Hotels & Tourism	Sales, Marketing & Support	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Leisure & Entertainment	Construction	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Leisure & Entertainment	Retail	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Leisure & Entertainment	Sales, Marketing & Support	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Transportation	Customer Contact Centre	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Transportation	Headquarters	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Transportation	Logistics, Distribution & Transportation	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Transportation	Maintenance & Servicing	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Transportation	Sales, Marketing & Support	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Transportation	Shared Services Centre	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1



## Investment Competitiveness Benchmarking Methodology

The goal of the analysis described is to benchmark countries in terms of their competitiveness to attract FDI in specific new economic sectors or activities. The approach can be used in the context of identifying and removing binding constraints to FDI in a given sector that a country has already selected as a priority, or in the context of sector selection work where the purpose is to identify sectors with existing potential for a positive FDI response.

The investment competitiveness benchmarking framework hypothesizes that a country needs to be competitive in terms of various characteristics, ranging from demand factors to production factors, key inputs, and the institutional context, in order to successfully attract FDI in a given sector. Country characteristics under these four pillars are measured and benchmarked through a set of 140 country level indicators from various sources, including Doing Business, World Economic Forum, World Development Indicators, International Country Risk Guide, etc. The intuition is to capture as broad a range of country characteristics as possible, while the sector specific benchmarks reflect the relative importance of each characteristic for FDI in given sector.

Sector specific benchmarks are constructed with the help of detailed project level FDI data from the Financial Times' FDI Markets database. The relative importance of the above-mentioned characteristics for FDI in a given sector is assessed by analyzing the characteristics of all countries in the world with successful FDI attraction for the sector in question. Those characteristics for which successful countries are clustered at high performance levels are likely to be crucial for a given sector. If such clustering exists for a given characteristic, the country under analysis compares against a high benchmark, and underperformance is likely to constitute a competitive disadvantage for FDI performance in the sector in question. Some sectors have relatively little investment globally, and in some cases those investments to date have been in countries with high performance levels, which is another instance in which a country under analysis would have underperformance for certain benchmarks.

fDi Markets classifies announced FDI projects by 38 sectors (e.g. consumer products, pharmaceutical, plastics, rubber, etc.) and 17 business activities (e.g. headquarters, logistics, manufacturing, R&D, etc.). While different assumptions are possible, in the baseline version of the methodology, a country is considered 'successful' if it has attracted at least one FDI project for a given sector and activity pair within the last 5 years (as of 2017). The combination of sector-activity pairs allows for comparisons of competitiveness for FDI either across different sectors for the same activity (e.g. manufacturing of textiles vs. cars) or for within sector analysis towards more sophisticated activities (e.g. textile manufacturing vs. design).

The methodology calculates sector benchmarking color-coded scores defined as follows:

- A dark green cell shown for a given indicator means that the country ranks above the 30th percentile of all countries in the world that have successfully attracted FDI in a given sector. The characteristic measured by this indicator would likely be seen by investors as a strength in the country's value proposition for investors in this sector.
- A light green cell shown for a given indicator means that the country ranks above the

10th, but below the 30th percentile of all countries in the world that have successfully attracted FDI in a given sector. The characteristic measured by this indicator would likely not be seen as a strength, but does not represent a significant obstacle to investment in this sector either as other countries in the world with the same level performance have still been able to attract FDI in the sector.

- A yellow cell shown for a given indicator means that the country ranks below the 10th percentile of all countries in the world that have successfully attracted FDI in this sector, but above the 90th percentile of unsuccessful countries that fall below the minimum performance of successful countries on this indicator. The characteristic measured by this indicator may be seen as a weakness by investors in this sector, but even relatively small improvements could address this shortcoming.
- A light red cell shown for a given indicator means that the country ranks below the 90th percentile, but above the 70th percentile of unsuccessful countries that fall below the minimum performance of successful countries on this indicator. The characteristic measured by this indicator is likely to be seen as a weakness by investors in this sector, and significant improvements would be needed to address this shortcoming.
- A dark red cell shown for a given indicator means that the country ranks below the 70th percentile of unsuccessful countries that fall below the minimum performance of successful countries on this indicator. The characteristic measured by this indicator is very likely to be seen as a strong weakness by investors in this sector, and very significant improvements would be needed to address this shortcoming.

## Appendix 3 - Preliminary Descriptions of Value Propositions

Brief value proposition statements for each of the priority subsectors are suggested below, but they would be strengthened by further data that should be developed by the GoA<sup>97</sup>:

- **Hotels**

- Nearly 1.5 million visitors in 2017, an increase of 19% on 2016, and 13% year on year since 2010.
- A market able to sustain a host of international players, including Radisson, Starwood, Holiday Inn, Hyatt and Marriott
- Access to a labor market ranked in the global top 50 by the World Economic Forum
- Year on year growth in hotels from 2012-16 of 13% in Yerevan, and 16% outside the capital
- Permits for construction in less than 100 days, compared to an ECA average of more than 160 (World Bank Doing Business)

- **Bookings / reservations**

- A US\$485m information and communication market in 2017
- A dynamic market, including innovative homegrown companies such as ride-sharing firm GG
- Major opportunities for tech companies, with online bookings far outweighing offline sales
- Ranked in the top 25 globally for the cost of fixed broadband Internet tariffs (WEF Technology Report)

- **Air transport**

- A fast growing market of 2.6m passengers transported per year, with 10% year on year growth since 2013
- More than US\$21m of FDI invested in air transport from 2014-16
- 'Open skies' opportunities to enter the Yerevan air transport sector, with no passenger fees at Shirak airport

- **Winter infrastructure**

- Extensive mountain regions for skiing across the country ready for infrastructure development
- Proven winter tourist demand, demonstrated by existing investors such as Yell Extreme Park operating all year round
- A proactive government for tourism, supporting winter infrastructure through PPP initiatives
- Natural resources ranked higher than neighbors Georgia and Azerbaijan (WEF Tourism)

- **Performing arts, spectator sports & related / or Museums, historical sites, & similar**

- 42% year on year growth in the value of arts, entertainment and recreation services since 2012

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<sup>97</sup> This would include: additional demand side data that illustrates the growth in the market for tourists both in Armenia and regionally (including types of tourism); specific details on relevant infrastructure development taking place, specific details on skills relevant to the subsector (e.g., number of graduates in relevant subjects), and changes in the business environment that are making it easier to invest in Armenia in this subsector, than competitors. More information is provided in appendix 4.

- More than US\$4.6m of FDI invested in sports activities and amusement and recreation activities from 2014-16
- A Yerevan tourist market supporting 40 art museums and galleries, a state of the art cycling velodrome and hosts of the 2019 UEFA European Under-19 Soccer Championships
  - **General tourism value statements**
- A quality human resource / labor market, ranked higher than many competitors including Romania, Moldova, Montenegro, Macedonia and Bulgaria (WEF Tourism), with an almost 100% literacy rate
- Ranked as one of the top 3 countries for safety and security in Eastern Europe / Eurasia (WEF Tourism)
- Ranked 2nd in Eastern Europe / Eurasia for the country's business environment (WEF Tourism)
- Ranked in the top 15 countries globally for starting a business and registering property (World Bank Doing Business)
- A corporate tax rate of just 18.5%, compared to ECA average of 33.1% (World Bank Doing Business)
- Ranked higher for labor market efficiency than Georgia or Turkey (WEF Competitiveness)

## Appendix 4 - Components of a Full Action Plan Tourism FDI

The purpose of this section is to describe the typical structure and key considerations that should be included in such a document, some of which are already addressed in this report. Development of such a plan would be much the same for tourism as would be for another sector – typically an overall strategy would be developed, rather than separate strategies for each sector.

**Table 21: Possible Sections of an Investment Promotion Plan for Tourism**

Stage	Name	Description
1	Priority Subsector Scan	Completed within this report
2	Priority Markets Identification	Completed within this report
3	Promotional Approach	
3a	Marketing Messages	Completed within this report, but further refinement is recommended. Development of a set of key “selling points” for each of the priority tourism subsectors. These should form the headline messages to be included in the marketing materials described below.
3b	Marketing Materials	Cited in this report. Could include an <i>Investor Guide</i> , a <i>General Brochure</i> , single-page general “Flyers”, a <i>Tourism Investment Policy</i> statement, and an <i>Investment Update Newsletter</i> . However, the most important materials would be a tourism Sector Proposition (or separate subsector propositions) - slide decks that present the competitive position and advantages of a tourism investor selecting Armenia for their project.
3c	Direct Proactive Outreach	Cited in this report. A structured approach to targeting of specific companies which have been identified as demonstrating an opportunity, based on due diligence of a long list of companies. All promotional staff should have a clear understanding of good practice in carrying out these activities.
3d	Secondary Marketing Activities	Cited in this report. These may include outsourced Lead Generation services from an external consultancy, organization of Local Seminars and Workshops, attendance at Trade Shows, organization of Missions to target source locations, engagement with Expat / Diaspora outside of the state, and PR / Media Channels. The combination of these different activities should be selected based on the scale of opportunity, and the Government’s state ambition. Some activities will be better suited to certain subsectors than others.
3e	Website Redevelopment and Maintenance	A section of the investment promotion website should be designed according to good practice specifically for tourism, and reflect the content of the investor sector proposition(s).
4	Tools & Resources	For targeting all sectors: identification of the products required to deliver the investment promotion mandate. This would include research sources (e.g. news on priority sectors), MS Office products, a Customer Relationship Management database, software for sharing files across team members (e.g. Dropbox), a set of templates for enquiry handling and aftercare, and a company database for targeting companies.
5	Aftercare Approach	Consideration of the services that would be made available to existing investors, and a clear mechanism for how the IPA should

		prioritize its services – the IPA should seek to engage more closely with those tourism investors that have the greater economic impact on Armenia.
6	Performance & Reporting	A set of annual targets and Key Performance Indicators, based on the scale of opportunity and the level of ambition of the government. These should measure the success of the IPA and of individual staff, and would be combined with an approach to monitoring of these targets, plus a mechanism for updating targets in subsequent years.
7	<i>Organizational Approach</i>	
7a	Structure	Identification of the key units / functions within the IPA. This may include Promotion, Aftercare, and Marketing
7b	Resourcing	Development of the Structure to outline the number of roles within each function, and the specific job descriptions within each.
7c	Training (Capacity) Needs	A systematic rolling schedule of capacity building exercises, covering the range of investment promotion topics.
7d	Stakeholder Engagement	Discussed within this report. Clear protocols for working with relevant stakeholders in securing investment projects. This would include other Government departments, but also existing investors and consultants that may play a supporting role. Protocols should also be developed for moving a company through a seamless process from promotion, to facilitation, to aftercare.
7e	Budget Specification	This must again be based on the scale of opportunity and the level of ambition of the Government. The budget should reflect requirements for employee salaries, tools and resources required, and marketing activities. The breakdown of the budget should not be too granular: for example it should reflect an estimated cost of attendance at a trade show, but not a detailed breakdown of each of the costs that would feed into this.

## Appendix 5 - Accessing Data

The extent of available data on the tourist industry is a challenge in itself for attracting investors, as well as for the government to identify the nature of the investment opportunity. Investors, particularly in the tourism sector, need to have a range of information they can use to understand current tourism trends in Armenia, and therefore what type of investment could be viable.

This due diligence on the ‘Demand side’ is essentially answering question 6 of the methodology framework used in this report. Ideally in comparison with competitor countries, the type of data would include, depending on the investor’s subsector:

- Hotel occupancy rates and average rates
- Zvartnots airport fees compared to other airports
- Usage of ground transport (i.e. bus, rail, taxi travel numbers)
- Independent travelers compared to tour operator bookings; use of travel agencies, etc.
- Updated visitor survey data (the most recent was the USAid survey of 2013). This takes place at four land borders and two airports in Armenia<sup>98</sup> and is a lengthy process, but in some form, updated data needs to be available continuously.

It is also important to develop more information on the ‘supply side’ on Armenia’s attractiveness, which is answering questions 8-11 of the methodology framework. This would include information on all the key location factors that an investor considers when making a location choice. This includes skills, costs, infrastructure, risk, taxes and incentives, workforce availability, etc. This information would also ideally be presented in comparison with competitor countries.

Combined with the opportunity data, these two sets of information would be included in subsector marketing materials, which would be a key component of the overall marketing plan for the government. This example from Invest Canberra (Australia) provides a simple presentation of the type of information to be included.

<https://www.investcanberra.com/media/12741/Tourism-investment-opportunities-2017.pdf>

Additional important data for use in investment promotion would include a directory of existing (foreign) tourism investors (e.g. number of investors, jobs, etc.). Ideally, the government would hold information, and have relationships with, on all foreign tourism investors, so that it understands the sector as far as possible. This would help to support policy making, as well as investor aftercare services. Armenia’s registry of companies may already hold some of this information.

It is outside the scope of this report to advise on how to conduct statistical surveys, but clearly

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<sup>98</sup> Source: USAid Briefing Paper on EDMC work with the Ministry of Economy - Tourism Department and the National Competitiveness Foundation of Armenia

electronic collation of information would better enable the Government to capture more information. For example, electronic data on origin airports of air passengers would allow greater insight on where travelers are coming from, rather than just a country or the connecting airport they have flown from.



## Appendix 6 - List of Consultations

**Table 22: List of Consultations**

No.	Company Name	Contact Name & Position
1	7 Qar Restaurant and Hotel / ACTI Group	Gayane Hanrapetyan and Arthur Gasparyan
2	A Road to the Temple	
3	Aeroflot	Vitaly G. Saveliev
4	Apaga/Yell Extreme Park	Tigran Chibukhchyan, CEO
5	Am Travel	Larisa Mkoyan, Founder Director
6	Areni Wine Fest Foundation	Nune Manukyan, Founder
7	Armen Tour	Armen Gyoalyan
8	Armenian Institute of Tourism	Robert Minasyan, Director
9	Association of Adventure Tourism	Vladimir Grigoryan
10	B&B Association	Ophelie Petrossian
11	Concern Dialog Law Firm	Sedrak Asatryan, Managing Partner
12	DA Tours	Vladimir Grigoryan, Founder, Director
13	Event Solutions & DMC Armenia	Yeghishe Tanashyan, CEO
14	FestivAr Festival Association	Rose Abrahamyan, Executive Director
15	Gardman Tour	Haik Maghakyan, Director
16	Garni Info Center	Vaghinak Tadevosyan
17	General Department of Civil Aviation	Sergey Avetisyan, Head
18	GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit)	Armine Melik-Israyelyan, Programme Expert
19	Guides Guild	Lia Bakhshinyan
20	Hyr Service	Marianna K, Manager
21	IFC	Arman Barkhudaryan, Senior Investment Officer
22	Marriott International, Yerevan	Catalina Susan
23	MEDI State Tourism Committee	Zarmine Zeytuntsyan
24	Ministry of Health	Astghik Mirzakhanyan, Medical Tourism
25	Ministry of Youth and Sport	Artur Sedrakyan, Sport Tourism
26	Monuments Awareness Project	Bella Karapetyan, Executive Director
27	National Statistics Service	Stepan Mnatsakanyan
28	Renco Armestate LLC	Christian Cucurachi, Director
29	Ski & Mountaineering Association	Hovhannes Martirosyan, President
30	The Alexander Hotel	Jean Cadars, General Manager
31	World Bank CMU	Sylvie K. Bossoutrot, Country Manager
<i>By telephone after the mission</i>		
32	Corporacion America – Zvartsnots Airport	Marcelo Wende, CEO
33	Ministry of Education	
34	ArmAs Winery	Viktoria Aslanyan, General Director
35	ICOM Armenia	Ani Avagyan, President

## Appendix 7 - List of Sources

**Table 23: Alphabetical List of Sources**

No.	Name
1	AMAP Southern Corridor Strategy, 2014
2	Armenia Development Strategy for 2014-2025
3	Armenia National Statistics Service
4	Armenia: South Corridor Tourism Development Strategy, March 2015
5	Armenian Adventure Travel Association Rural Adventure Centers In Armenia, May 2017
6	Armenian Tourism Institute
7	Bangladesh Workshop on “PPP in Tourism”, 2013
8	Facilitating Large-Scale Tourism Resorts in Mozambique: The Tourism Investment Generation Approach, IFC, 2012
9	fDi Markets from the Financial Times
10	IBRD development project appraisal document on a proposed loan in the amount of US\$55 million to the republic of Armenia for a local economy and infrastructure development project, December 1, 2015
11	OCO Global presentation
12	Presentation on Tourism Committee / Foundation - 20 Projects
13	State Tourism Committee Presentation – Your Next Business Destination, 2018
14	Tourism Committee: Gaps in the Field of State Tourism Policy, 2018
15	Tourism Projects Recap Armine
16	Tourism Strategy for Armenia 2007 – 2030, Prepared for the Ministry of Trade and Economic Development
17	UNCTAD World Investment Report, 2011
18	USAid EDMC International Visitor Survey Results, 2013
19	USAid Briefing Paper on EDMC work with the Ministry of Economy - Tourism Department and the National Competitiveness Foundation of Armenia
20	USAid Enterprise Development And Market Competitiveness Project Final Report, December 2014
21	USAid Tourism Development Strategy Review: A Roadmap 2014 - 2019
22	VET Education document, from the Ministry of Education.
23	World Bank Concept Note: A Reform Assessment on Competition in Armenia: Fostering Market Contestability for Productivity and Prosperity, 2018
24	World Bank, Survey Measuring Investor Confidence in Armenia, 2017
25	World Bank: Global Investment Promotion Best Practices - Winning Tourism Investment, 2013
26	World Economic Forum Global Competitiveness Report
27	World Economic Forum Global Tourism Competitiveness Report
28	World Travel & Tourism Council: Economic Impact Reports 2018

## Appendix 8 - Key Companies in Priority Subsectors

The following is a small list key resident companies and foreign owned companies in priority subsectors, their subsector, and website address (some are cited above in appendix 6), identified during the research process.

**Table 24: Key Companies in Priority Subsectors**

Company Name	Origin	Subsector	Website
7 Qar Restaurant and Hotel / ACTI Group	Domestic	Hotels / Other Amusement & Recreation Industries	<a href="http://www.actigroup.am">www.actigroup.am</a>
Aeroflot	Foreign	Air transport	<a href="https://www.aeroflot.ru/xx-en">https://www.aeroflot.ru/xx-en</a>
Apaga/Yell Extreme Park	Domestic	Hotels / Other Amusement & Recreation Industries / Winter infrastructure	<a href="http://www.yell extremepark.com">www.yell extremepark.com</a>
Event Solutions & DMC Armenia	Domestic	Other Amusement & Recreation Industries	<a href="http://www.dmcarmenia.com">www.dmcarmenia.com</a>
Marriott International	Foreign	Hotels	<a href="https://www.marriott.co.uk/hotels/travel/evnmc-armenia-marriott-hotel-yerevan/">https://www.marriott.co.uk/hotels/travel/evnmc-armenia-marriott-hotel-yerevan/</a>
The Alexander Hotel	Foreign	Hotels	<a href="http://www.starwoodhotels.com/luxury/property/overview/index.html?propertyID=4712&amp;language=en_US">http://www.starwoodhotels.com/luxury/property/overview/index.html?propertyID=4712&amp;language=en_US</a>
Corporacion America – Zvartsnots Airport	Foreign	Air transport	<a href="https://www.corporacionamerica.com/zvartnots.php?lang=en">https://www.corporacionamerica.com/zvartnots.php?lang=en</a>
ICOM Armenia	Domestic	Museums, Historical Sites, & Similar	<a href="http://icom.museum">http://icom.museum</a>
Ukraine International Airlines	Foreign	Air transport	<a href="https://www.flyuia.com/am/en/contacts/worldwide-offices">https://www.flyuia.com/am/en/contacts/worldwide-offices</a>
GG	Domestic	Bookings / reservations	<a href="https://www.ggtaxi.com">https://www.ggtaxi.com</a>

## Appendix 9 - Industry Organizations in Priority Subsectors

The following are a list of relevant industry support organizations and institutions identified during the research process (some are cited above in appendix 6).

**Table 25: Industry Organizations in Priority Subsectors**

<b>Name</b>	<b>Website</b>	<b>Contact</b>
Areni Wine Fest Foundation	<a href="http://www.armenianwinefestival.am">http://www.armenianwinefestival.am</a>	+374 10 55 45 04; +374 91 26 45 95
FestivAr Festival Association	<a href="http://festival.aist.fun">http://festival.aist.fun</a>	+374 11 599 599; <a href="mailto:info@festivar.com">info@festivar.com</a>
Guides Guild	<a href="http://www.armenian-guides.am">http://www.armenian-guides.am</a>	<a href="mailto:guild-ag@hotmail.com">guild-ag@hotmail.com</a> ; +374 91 598 045 / +374 10 563 667
Ski & Mountaineering Association	<a href="http://www.armski.am">www.armski.am</a>	info@armski.am
IDEA Foundation	<a href="https://www.idea.am">https://www.idea.am</a>	+374 60 700 800, +374 12 700 800
Armenian Hikers Association	<a href="http://armenianhikersassociation.com">http://armenianhikersassociation.com</a>	Contact form
ARK NGO	<a href="https://www.arkarmenia.com">https://www.arkarmenia.com</a>	+374 93812683 / +374 98887894 / +374 95887895; arkarmenia@gmail.com
Association of Adventure Tourism	<a href="https://www.armadventure.org">https://www.armadventure.org</a>	armenia@armadventure.org; +374 91 407 211
B&B Association	<a href="http://barigaloustarmenie.am">http://barigaloustarmenie.am</a>	+374 55 27 80 76; armbbequipe@yahoo.fr

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