POST-WAR ECONOMIC BREAKTHROUGH

Posted on July 10, 2021 by Keghart



Category: Opinions

By Vazgen Gharibyan, Toronto, 9 July 2021

Considering the tense political situation and security concerns of Republic of Armenia (RoA), the economy is another important sphere that presents challenges. However, there are opportunities that should be capitalized on vigorously in the short- and long-term future. The economic growth ought to be one of the most targeted areas for development by the state and private sectors.

The European Bank for Reconstruction and Development (EBRD) has implemented 189 projects in RoA since its opening in December of 1992 with a total investment of over $1.5 billion. There are additional seven economic and business initiatives, that have either begun recently or will be implemented in the coming months and years. Those projects and investments can aid the much-needed breakthrough in the country's economy and exemplify cooperation and success:

1. **EBRD to provide another $10 million in SME (Small & Medium Enterprises)**. The scheduled financial package will be in the private sector in support of upgrading technologies to EU standards, climate change mitigation and green technologies. Besides this, additional loans will be provided and complemented by technical advice and incentive grants from EU and GCF (Green Climate Fund).
2. In recent years, the Territorial Development Fund has been implementing the Local Development Program with the financial participation of the government and the World Bank. Considering the success of the program, **a new agreement was signed between the government and the World Bank, which envisages an additional €25 million for the development of communities**. By attracting new funds, it will be possible to finance an additional 20 micro-projects for the development of community social infrastructure and 35 sub-projects will be implemented with the second stage.
3. **An Abu Dhabi-based company, Masdar, will invest $174 million to build first massive solar power plant in Armenia.** The plant will be located near Talin, a small town 67 kilometers northwest of Yerevan, and cover 500 hectares of land, the *Armenian* National Interests Fund (ANIF) said in a statement. It will be 85 percent owned by Masdar (a leading renewable energy company), added the state agency tasked with attracting foreign investment. This low-cost solar energy project will help power new industries, generate jobs and set the country on the path to growth.
4. **Investment projects in agribusiness and tourism amounting to a minimum of $400,000 will receive infrastructure co-financing from the state.** The projects are to be implemented by a partnership through The World Bank and the government. The World Bank assists with a US $55 million Local Economy and Infrastructure Development Project (LEIDP) that aims to stimulate economic growth and employment in the southern regions of the country (Ararat, Vayots Dzor and Syunik), as well as two regions in the north (Kotayk and Lori). The Project activities focus on improving the quality and reliability of municipal infrastructure; supporting tourism and agribusiness development; and creating an enabling environment to attract private

sector investments. Greater tourism activity can help the poor and less well-off through direct effects of tourism, secondary effects (from participation in non-tourism sectors such as construction work, farmers supplying to hotels, etc.), and dynamic effects which shape the sources of growth in the local economy.

5. **The EU Council is now ready to sign four important agreements in the field of aviation**, which will ensure market access to airlines, expand connectivity and freedom of movement for citizens. The countries, **Republic of Armenia, Ukraine, Tunis, Qatar,** that the agreements are going to be signed with, will remove market restrictions on neighboring EU countries, associate those countries with the EU internal aviation market, as they will introduce EU aviation standards, and apply EU aviation rules. This opportunity might potentially boost tourism industry and diversify the visitor demographics. Currently the tourism sector is showing signs of awakening. The resumption of European low-cost airlines (Eurowings, Wizz Air) flights is a telling sign about the potential increase in the number of visits by the end of 2021. So far Russia is the leader in the structure of visitors. Some activity is resumed from Iran, Georgia, Arab countries, Europe.
6. **Leading German software developer SAP along with Armenian Business Angels Network (BANA) have announced a partnership to establish the SAP Startup Factory.** Establishment of SAP Startup Factory is possible with the support of the "Innovative Tourism-Technology Development for RoA" (ITTD) program of the "EU for Business" initiative, which is co-financed by the European Union and the German Federal Ministry for Economic Cooperation and Development. Startup ecosystems can become a driving force of economic growth, job creation and digital transformation.
7. FAST (Foundation for Armenian Science and Technology) **expands its Business Angels Network initiative to help RoA become a hub for research and innovation.** FAST works in the areas of IT and computer science, artificial intelligence (AI), high-tech materials, robotics, biotechnology, advanced engineering, and manufacturing technologies. It is set to offer investment opportunities via 3 main tracks:

- Traditional Angels investments - this track offers pre-seed to seed-stage investments in startups engaged in science and technology innovation. Focus will be on AI as a platform technology, or as a technology integrated in various verticals that benefit RoA and the world in AgTech, EdTech and FinTech.
- Moonshot projects - investments here are in high-risk/high-gain projects which offer ultra-sophisticated, deep technology solutions to tackle worldwide challenges.
- Women entrepreneurship - this track provides impact investments for female led beginning stage (idea/concept stage) startups to empower women in entrepreneurship.

Despite the challenges caused by the war crisis and lack of efficiency by the ruling government in recent years, there are some promising movements in the economy. One of the examples is that the reputable Fitch Ratings Global has recently reaffirmed RoA's long-term foreign currency issuer

default ratings with stable B + forecast. Another example is the permission of issuing $750 million Eurobond in February of 2021, a positive approach by European financial institutions.

In the face of the challenges related to the global epidemic, tourism remains one of the most strategic and fast-growing industries in RoA. Renewable energy projects can also play an important role to reduce the dependencies of high-cost energy resources and will help to build a prosperous and truly sustainable future.

Overall, RoA will need to shift to an export led strategy if it is to move from middle income to high-income status. Because it is a landlocked country with comparatively high trading costs in physical goods, high-tech digital exports will continue to be key to growth. In 2019 alone, RoA was able to increase its IT industry by more than 30% and expects to double the industry output by 2024.

Hopefully, the current Government and the Diaspora will become more involved in the efforts to capitalize on above mentioned industries' growth.

Comments

Mardiros – 2021-07-10 15:49:26
I agree with Kirkiacharian. This is a rip off. So much has been told about the tech industry in Armenia that one gets the impression it's the second Silicon Valley, then they can't locally design solar panels? The technology is all over. It's interesting to know which minister made this deal. If all deals are like this, then Armenia is being sold to foreigners as many infrastructure assets were sold to Russia against debt during Kocharian years..

Kirkiacharian – 2021-07-10 12:26:28
The 85% owned by MASDAR SOLAR Power Company is regrettable. It should be 50/50 as energy is so necessary in any country and further in a developing country like Armenia . How is it possible not to perform such a project in better conditions for Aermenia . With other countries, i.e. China, such a deal would not be possible. Sincerely