



EXPLORING ARMENIAN ENVIRONMENT FOR FOREIGN INFLOWS:

Corrosive and Constructive
Capitals Under Microscope

RESEARCH REPORT

Yerevan, Armenia

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LIST OF ABBREVIATIONS

ADB	The Asian Development Bank
ANIF	Armenian National Interests Fund
CB	Central Bank
CEE countries	Central and Eastern European countries
CEFC	Clean Energy Finance Corporation
CEO	Chief executive officer
CIPE	Center for International Private Enterprise
CS	Civil Society
CSO	Civil Society Organization
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
EI	Expert interview
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
EIU	Economist Intelligence Unit
ESG elements	Environmental, Social, and Governance elements
FDI	Foreign direct investment
FGD	Focus group discussion
GDP	Gross domestic product
IDR	Issuer Default Rating
IT	Information technology
KII	Key-informant interview
MFA	Ministry of Foreign Affairs
OECD	Organization for Economic Cooperation and Development
OJSC	Open joint-stock company
RA	Republic of Armenia
PSRC	Public Services Regulatory Commission
RF	Russian Federation
SCPEC	State Commission for Protection of Economic Competition
SCR	South Caucasian Railway
SMM	Social Media Marketing
USA	United States of America
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics
WJP	The World Justice Project
ZCMC	Zangezur Copper Molybdenum Combine

INTRODUCTION AND PROBLEM STATEMENT

The Covid-19 and Artsakh war in 2020 posed considerable challenges to the economy of the Republic of Armenia (RA), resulting in slower economic growth rates, increased unemployment rate, and external debt during 2020-2021.¹ Given this critical situation, attracting foreign investments has become even more important, and the discussions regarding this topic intensified recently. In 2022, the war unleashed in Ukraine and the sanctions imposed on the Russian Federation (RF) and Belarus triggered the relocation of various businesses from these countries to Armenia. How may Armenia benefit from these developments? What risks may Armenia face? In general, how can the effectiveness of foreign investments be enhanced because of current situation? The answers derive, on the one hand, from the *nature of foreign investments*, and the other hand, from *the investment environment* that exists in the Republic of Armenia, the study of which is the primary concern of this research.

In this research, the *nature of investments* should firstly be understood as the quality of investments, in particular, the characteristics defined for corrosive and constructive capitals by the Center for International Private Enterprise (CIPE)²:

Corrosive capital:

- Implies secretive deals under unclear terms
- Undermines laws and decreases the opportunity
- Feeds corruption and nepotism
- Often originates from authoritarian regimes
- Avoids usual business responsibilities

Constructive capital:

- Holds transparency, documented terms and conditions
- Is accountable to stakeholders and citizens
- Based on market principles
- Supports business environment integrity
- Conforms to international norms

At the desk research stage of the research program, the study of foreign investment practices in different countries, as well as our preliminary observations in the field of investments in the Republic of Armenia have allowed adding new corrosive capital characteristics to the ones mentioned. These are:

- Small and dispersed investments³

¹ Labor market indicators, 1.4.1. Employment, 1.4.1.1. Estimating employment indicators according to the labor force sample survey results. Source: https://armstat.am/file/article/sv_12_21a_141.pdf

² Corrosive & Constructive Capital Initiative Flyer: <https://www.cipe.org/newsroom/corrosive-constructive-capital-initiative-flyer/>.

³ By the same company and its other affiliated companies. As experts have observed, the amounts geared down to the re-profiling of systems and institutes are not usually of large scale. They are accurately stated to be “cheap money” aimed at causing corrosion (of people, institutions, systems). In

- Facts verifying the presence of an investment company in different authoritarian regimes⁴
 - The investing company enjoys state patronage in its country of origin⁵
 - Having a political party cell in the investing organization⁶
 - Short operation history of the investing company⁷
 - Making investments in the fields (mass media, humanitarian studies) not considered to be traditional investments⁸
 - Supporting certain political factions of the investment country and their campaigns⁹ by the investment company or its individual adepts
 - In the investment country, the investing company has operated in the red for many years but does not cease its activities¹⁰
 - Appointing high-ranking political officials of the investment country in the management board of investing companies¹¹

addition, this “cheap money” is used in more than one field. They are distributed to different lobbyists, officials are bribed, media outlets are purchased or established, etc. The observation regarding dispersion is also important, as studies show that constructive investments, on the contrary, appear to be mainly in one field. See “Corrosive Capital flows re threat for the fragile democracies in the Western Balkans” | Source:

<https://idscs.org.mk/en/2020/09/29/corrosive-capital-flows-are-threat-for-the-fragile-democracies-in-the-western-balkans/>

⁴ If any investing company is successful in authoritarian regimes, it is likely that it has great experience in shadow and non-constructive activities and can deploy those in other countries.

⁵ These companies include CEFC in China, Gazprom and Rosneft in Russia. In investment countries the activities of these companies prove to be creating economic dependence, which is followed by political dependence. Furthermore, these companies cooperate with the intelligence services of their home country. For example, in China foreign investing organizations are instructed to gather intelligence on investment companies. | Source: <https://www.cipe.org/resources/a-new-invisible-hand-authoritarian-corrosive-capital-and-the-repurposing-of-democracy/>

⁶ This seems to refer only to China. The Chinese authorities urge companies investing abroad to have CP cells within them. Naturally, companies cooperating with Chinese political parties are first to follow these instructions. | Source: <https://www.cipe.org/resources/a-new-invisible-hand-authoritarian-corrosive-capital-and-the-repurposing-of-democracy/>

⁷ In many Latin American and Balkan countries, the biography and promotion history of certain Chinese organizations engaged in investments raises suspicions. Among them, there are companies that have had only 1 or 2 years of operation history before making investments, yet their assets reached billions. As it turns out, the administration of the political party and intelligence services have played a key role in their establishment and promotion. | Source: <https://www.cipe.org/resources/a-new-invisible-hand-authoritarian-corrosive-capital-and-the-repurposing-of-democracy/>

⁸ A striking example of this can be seen in the Czech Republic. | Source: <https://ceias.eu/chinese-corrosive-capital-sk-cz/>

⁹ The examples of this can particularly be seen in Latin American and Post-Soviet countries, with participation of Russian companies. See “A New Invisible Hand. Authoritarian Corrosive Capital and the Repurposing of Democracy, by Martin Hála” <https://www.cipe.org/resources/a-new-invisible-hand-authoritarian-corrosive-capital-and-the-repurposing-of-democracy/>

¹⁰ The Russian South Caucasian Railway operating in RA is considered an adept of the mentioned phenomenon. This, as well as other examples, prove that investors do not pursue an aim of receiving profits, but rather keeping investment countries politically dependent on their countries of origin.

¹¹ This is one of most common types of strategic corruptions. For example, while offering the German Chancellor Gerhard Schröder the position of director in the Board of the Company, the Rosgazprom managed receiving assistance for the Nord Stream to be constructed by the efforts and support of Germany. This happens in the circumstances where the European Commission objected this decision. Also, the far-right party, winning the elections, was brought to power in Austria through “Ibiza-gate” operation with the assistance of Russian companies. Identically, the Chinese CEFC Company appointed

- Low commission fees, low service prices set in the investment country¹² for services offered by the investing company
- Foreign investments made based on ethnic ties and nepotism¹³

The following can serve as additional characteristics of the constructive capital:

- Expanding production capacities¹⁴
- Projects for increasing the quality of the labor force
- Corporate management¹⁵

The majority of added characteristics are not direct indicators of corrosive or constructive capital; however, when combined with a certain experience, they may serve as warning indicators to identify flow and deployment in recipient countries.

The nature of foreign investments in the Republic of Armenia is introduced in Section 1 of this research.

The *investment environment* should, firstly, be understood as the following environments conducive to the flow and deployment of corrosive or constructive capital:

- State vision for the investment policy
- Legislation and decisions regulating investments
- Institutions drafting and implementing the investment policy
- Market and competition environment
- Judicial system
- Political system
- Civil society
- Geopolitical factors affecting investments
- Emergency factors affecting investments /Covid 19, Artsakh war, Ukrainian war, border tension/

the representatives of the Czech Elite to the highest positions. For example, former Defense Minister of the Czech Republic Tvrdik was appointed as the Director of the Company, which brought many supporters of the said famous Chinese Company to the power in the coming presidential elections of the Czech Republic. “A New Invisible Hand. Authoritarian Corrosive Capital and the Repurposing of Democracy, by Martin Hála”

<https://www.cipe.org/resources/a-new-invisible-hand-authoritarian-corrosive-capital-and-the-repurposing-of-democracy/>

¹² For gaining political leverage Russian companies used low commission fees in Bulgaria, Macedonia and Serbia, and offered low gas prices in Turkey, Hungary and Greece. | Source:

<https://www.cipe.org/resources/a-new-invisible-hand-authoritarian-corrosive-capital-and-the-repurposing-of-democracy/>

¹³ This phenomenon is observed mainly on the basis of practices registered in Armenia, according to which ethnic origin and personal acquaintances play an important role in concluding any deal with foreign investors.

¹⁴ One of the lecturer-experts participating in the expert interviews drew our attention to the mentioned characteristic.

¹⁵ The importance of this characteristic was pointed out by the experts who participated in the interviews (both from the state structure and from the private sector).

At the desk research stage, a number of indices have been taken into consideration to update the findings of field research and achieve a full understanding of the listed aspects of the investment environment:

- Democracy index 2021. Economic intelligence unit,¹⁶
- Index of economic freedom 2022. Heritage foundation,¹⁷
- Doing business 2020,¹⁸
- Rule of law 2021. World Justice Project,¹⁹
- Transparency international index 2021,²⁰
- Global competitiveness index 2019. Good markets efficiency,²¹
- Global competitiveness index 2019. Institutions,²²
- International Property rights 2021. Property rights alliance,²³
- Press freedom index 2022. Reporters without borders,²⁴
- CSO Meter 2019,²⁵
- Globalization index KOF 2021,²⁶
- Fitch Ratings, Armenia, Long Term Default Rating 2021- B+²⁷

Analysis of the investment environment is introduced in Section 2 of the research.

The quality of investments directly or indirectly impacts not only the economic system of the country but also non-economic systems and, in particular, the political system, contributing to their strengthening or weakening and repurposing. The metastases of the corrosive capital operation in the Republic of Armenia are discussed in Section 3 of this research.

¹⁶ EIU, Democracy Index 2021: the China challenge, page 32:

<https://www.eiu.com/n/campaigns/democracy-index-2021/>

¹⁷ Index of economic freedom 2022, Heritage foundation: <https://www.heritage.org/index/download>

¹⁸ Doing business archive: <https://archive.doingbusiness.org/en/doingbusiness>

¹⁹ The World Justice Project (WJP) Rule of law index, 2021. <https://worldjusticeproject.org/rule-of-law-index/>

²⁰ Transparency International, Corruption Perception index, 2021:

https://www.transparency.org/en/cpi/2021?gclid=CjoKCQjwz96WBhC8ARIsAATR253hR4aMOjc59bzw4rlxUVTYGpXM_lmubwjtn7Vy6YnK6AJ7RkwEosYaApXrEALw_wcB

²¹ The Global Competitiveness Report 2019. World Economic Forum:

https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.

²² The Global Competitiveness Report 2019. World Economic Forum:

https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.

²³ International Property rights 2021. Property rights alliance:

<https://www.internationalpropertyrightsindex.org/>

²⁴ Press freedom index 2022. Reporters without borders: <https://rsf.org/en/index>

²⁵ CSO METER - Assessing the civil society environment in the Eastern Partnership countries. Regional Report. Lead Authors: Ivana Rosenzweigova, Luben Panov, Eszter Hartay:

<https://transparency.am/hy/publication/pdf/189/1284>

²⁶ Globalization index 2021. KOF: <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>

²⁷ Fitch Ratings, Armenia. Long-Term Foreign-Currency Issuer Default Rating (IDR):

<https://www.fitchratings.com/entity/armenia-83313661#ratings>

RESEARCH METHODOLOGY

To study the opportunities and obstacles of the operation of corrosive and constructive capitals in Armenia, the qualitative research was chosen as a methodological strategy, which consists of two stages: desk and field works. At the desk research stage, the challenges were the following:

At the desk research stage, the challenges for the research were the following:

1. Developing a general understanding of the research object and subject, manifestations of the latter;
2. Clarifying the research method;
3. Mapping the respondent and FGD participants;
4. Developing relevant guides

1. Developing a general understanding of the research object and subject, manifestations of the latter: About 30 analytical and informative publications²⁸ placed on the CIPE website, discussion videos, various documents, statistical data, and mass media reports relating to the nature of investments and investment environment in the Republic of Armenia have been studied to develop an understanding of the research object and subject, manifestations of the latter. In addition, they helped, to develop a general understanding of the research object and subject, to introduce additional characteristics of the investment capital and additional aspects (indices) portraying the investment environment that has been useful for presenting different aspects of the issue under consideration fully and thoroughly.

2. Selection of the research method: Given limited adepts informed of the issue and the aim of studying the issue in detail, preference has been given to qualitative research, in particular the methods of expert interview (EI) and key-informant interview (KII), and focus group discussion (FGD). This decision has been conditioned by the peculiarities of expert and key-informant community, in particular their occupation and availability, their willingness to participate in the surveys of different formats. Four group discussions, 10 expert interviews, and 8 key-informant interviews have been conducted.

The selection of qualitative methods of the research and their qualitative planning has allowed identifying, so to say, less visible, invisible aspects of the issue under consideration, the root causes determining their nature, as well as possible means and solutions for effective response to the challenges related to the issue.

3. Mapping respondents and FGD participants: We opted for the following criteria for mapping EI and KII participants (Annex 1):

- Policy developers and state institutions participating in the policy development;
- State institutions implementing policies and participating in their implementation;
- Private beneficiaries

²⁸ Full list of literature and sources are presented at the end of this report.

- Expert community

The following sectors were selected for choosing focus group discussion participants:

- Representatives of state institutions (Ministry of Economy)
- Expert community
- Journalist-expert community
- Business community

In total, about 34 people took part in the focus group discussions, expert, and key-informant interviews, 7 of them are representatives of state institutions (policymakers, policy implementers, and supervisors), 18 are from the expert community (journalists-experts, representatives of business unions, representatives of international institutions, professors), 9 are private beneficiaries (banking and business sector).

Such a wide range of selection of research targets has allowed identifying different and compatible approaches of experts and key-informants on the issue under consideration, as well as discretionary, professional, and status-related factors determining them, which play an important role in building an investment policy in the Republic of Armenia.

4. Developing relevant guides: One comprehensive semi-structured tool has been developed for all types of interviews and discussions, *i.e.*, a guide. Such a decision has been made taking into consideration the fact that different aspects of the topic under consideration are new for expert circles, which implies a questionnaire involving mostly general questions (Annex 2). Depending on the nature of answers, such a questionnaire allowed to offer research participants new questions that could not previously be found in a questionnaire. The questionnaire, in general, focuses on the following set of questions:

- General understanding of the foreign investment policy in the Republic of Armenia (conceptual and actual nature of the investment policy, main areas of investments, and main investing countries and companies).
 - Environments (institutional, macro-economic, legislative, judicial, political, civil) are conducive to the flow and deployment of investments of different quality.
 - Issues connected to the investment policy and democracy

Flexible and creative use of the comprehensive guide questionnaire has helped record detailed and comprehensive information not only about the questions suggested in the guide but also identified features and manifestations of quality and investments that have not primarily been questioned in the guide. This additional information and descriptions in relation to their typology, adjustment, and coding have certainly, created certain difficulties. Still, flexible use of the guide from the point of view of achieving a more sophisticated and full understanding of the issue is justified.

PART 1. THE NATURE OF FOREIGN INVESTMENTS FROM THE PERSPECTIVE OF CORROSIVE AND CONSTRUCTIVE CAPITALS

1.1. THE DYNAMICS OF FOREIGN INVESTMENTS BY INVESTING COUNTRIES

The section touched on the dynamics of investing countries, the shortcomings of official statistics, and the factors determining the existing statistical picture according to official statistics.

Foreign investments in the RA come from more than 30 countries.²⁹ The shares of 5 main countries for foreign investment inflows to Armenia (Argentina, Germany, Cyprus, France, Russia) and the dynamics of those investment inflows for the period of 2014-2021 were chosen for analysis (Figure 1, Figure 2).³⁰ Figure 1 shows the trend according to gross foreign total investment³¹ and Figure 2 shows the trend according to gross foreign direct investment (FDI)³².

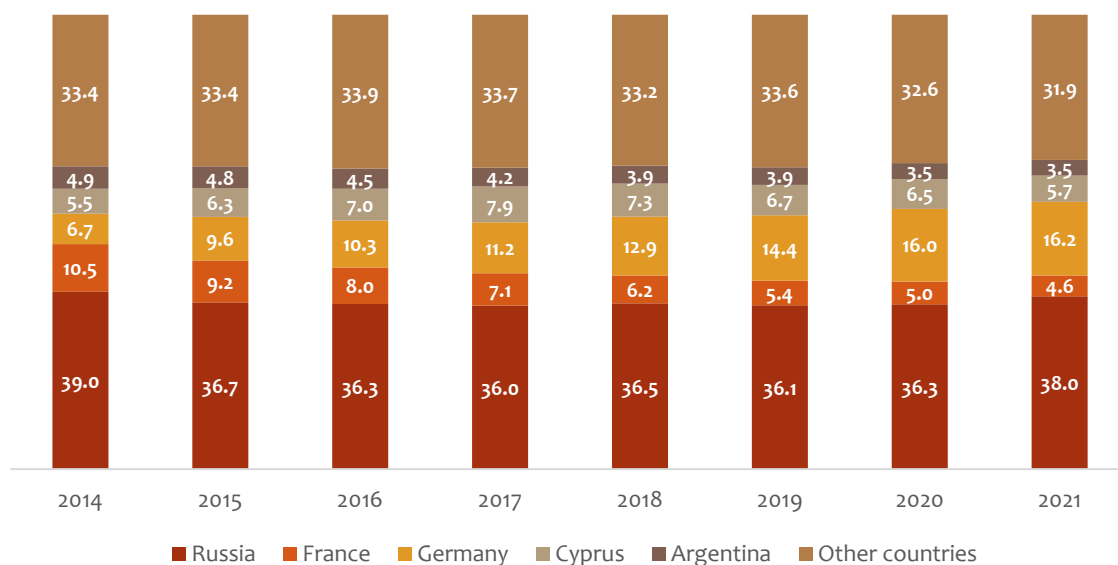


FIGURE 1. THE CHANGE IN THE SHARE OF FIVE MAJOR INVESTOR COUNTRIES IN THE ANNUAL GROSS FOREIGN INVESTMENTS (%) IN 2014-2021³³

²⁹ Source: Armstat.am/Foreign investments: <https://armstat.am/en/?nid=14>

³⁰ Investment influx dynamics has been studied starting from 2014, given Armenia's membership in the EEU from 2015.

³¹ Total investments include direct, portfolio and other investments (the latter includes loans, money paid/gained for goods and services, and paid/gained deposits). Source: ArmStat (2021), p. 115, https://armstat.am/file/article/sv_05_21a_420.pdf

³² Foreign direct investment - Investment from one country into another (normally by companies rather than governments) that involves establishing operations or acquiring tangible assets, including stakes in other businesses. | Source: <https://web.archive.org/web/20190408103028/http://lexicon.ft.com/Term?term=foreign-direct-investment>

³³ Based on our calculations; Source: Armstat.am/Foreign investments: <https://armstat.am/en/?nid=14>

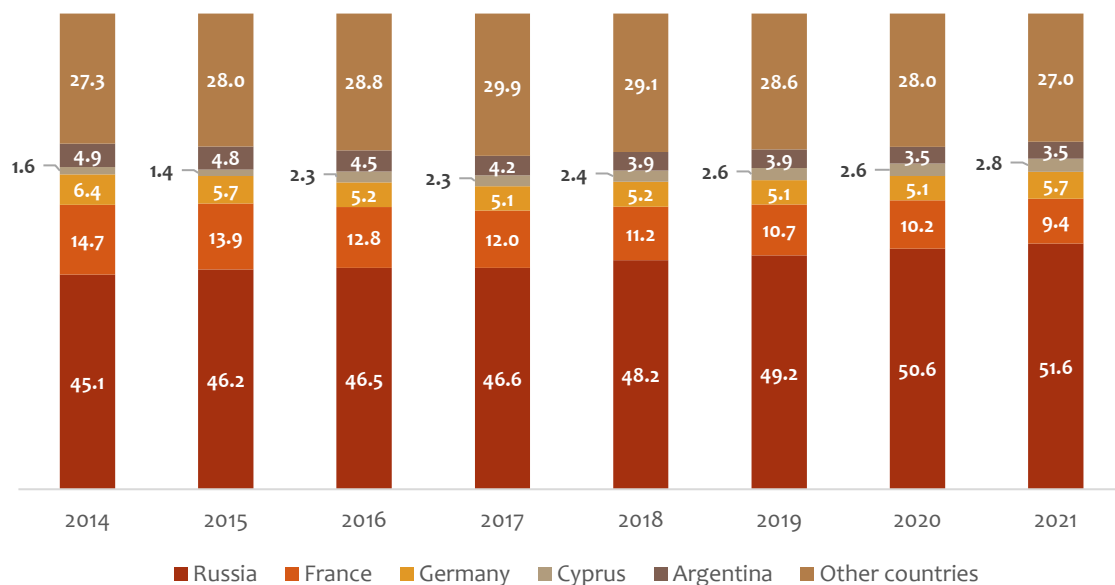


FIGURE 2. THE CHANGE OF THE SHARE IN THE ANNUAL INFLOW OF GROSS FOREIGN DIRECT INVESTMENTS OF THE FIVE MAIN INVESTOR COUNTRIES (%) IN 2014-2021³⁴

The presented charts allow to record the following facts and trends:

- Russia has the highest weight among the mentioned countries both in terms of gross and total foreign direct investments.
- In 2014-2021 Russia's share of gross inflows of total investments decreased slightly. Argentina's weight has hardly changed during this period. The weight of France decreased sharply, and the weight of Germany increased significantly.
- In the given period, the gross inflows of FDI from Russia recorded a certain growth. Investments from Russia have been allocated to the following areas:
 - fishing and agriculture,
 - manufacture of food products,
 - manufacture of leather and related products,
 - electricity, gas, steam, and conditioning supply,
 - manufacture of computer,
 - electronic and optical products,
 - manufacture of machinery and equipment, other manufacturing,
 - land transport and via pipelines,
 - sports activities,
 - amusement and recreation activities, other personal service activities³⁵

The decrease in the share of France is noticeable. A decline is also observed in Argentina's specific weighting. Germany's weight in the gross inflows of FDI has hardly changed for the period of 2014-2021.

³⁴ Based on our calculations; Source: Armstat.am/Foreign investments: <https://armstat.am/en/?nid=14>

³⁵ Source: Armstat.am/Foreign investments: <https://armstat.am/en/?nid=14>

According to Economic Intelligence unity in 2021, the countries presented in Figures 1-2 of the published "Democracy Index"³⁶ have the following indicators in the ranking list of the democracy index.

TABLE 1. DEMOCRACY INDEX OF THE FIVE MAIN COUNTRIES OF FDI INFLOWS TO THE RA

Country	Democracy Index
Germany	8.67
France	7.99
Cyprus	7.43
Argentina	6.81
Russia	3.24

Thus, according to the index, Germany belongs to the class of *perfect democracies*, France, Cyprus and Argentina to the class of *flourishing democracies*, and Russia to the class of *authoritarian countries*.³⁷As it was already shown in the charts above, the country with the largest weight of gross FDI inflows in the RA is Russia.

According to CIPE observations, corrosive capital, as opposed to constructive capital, flows mainly from countries with authoritarian regimes.³⁸ This, of course, does not exclude the possibility that corrosive capital from other countries cannot penetrate the recipient countries. Particularly, in the case of two of the countries presented in Figure 1 and Figure 2, Cyprus and Argentina, our respondents expressed some doubts about their transparency and competitiveness. In the case of Cyprus, attention was drawn to the offshore transactions that were subject to active discussions among Armenian public in the past years,³⁹ and in the case of Argentina, the ethnic factor was mentioned.⁴⁰

³⁶ The higher the value of the country, the higher the level of democratic governance.

³⁷ Source: EIU democracy index table 3: <https://www.eiu.com/n/campaigns/democracy-index-2021/>

³⁸ Corrosive Capital: Known Unknowns, page 2: <https://www.cipe.org/resources/corrosive-capital-known-unknowns/>; <https://corrosiveconstructivecapital.cipe.org/>, What Risks May Lurk: China’s Investments and Lending in Emerging Democracies

³⁹ See “It should be noted that Cyprus is the most favorite offshore in Armenia” <https://armeco.am/publ/3-1-0-35->, <https://news.am/arm/news/159937.html>

⁴⁰ Serzh Sargsyan awarded “The Order of Motherland” to E. Eurnekian in 2017, for services of nationwide importance rendered to the Republic of Armenia. Namely, the Order is awarded more ethnicity-centered, rather than economic-centered (for exemplary taxpayer, for encouraging productivity growth, etc.).

Source: <https://armenpress.am/arm/news/908742/armenian-president-hands-out-order-of-motherland-to-philanthropist-eduardo-eurnekianC2Ao.html>

Interestingly, some time ago Eurnekian coming to Armenia was interpreted as a result of personal ties with R. Kocharyan. This was seconded by reporters who in 2018 captured a poster reading “Freedom to President”, meaning Kocharyan, in the former main building of the MFA (currently belonging to Eurnekian).

Source: <https://www.iin.am/2404709.html>

““

...Foreign investments that are in Armenia should be sifted. There is certain amount of foreign investments that are not foreign investments. They came under the hood of foreign investment, from offshore zones (Cyprus, Virginia, etc.), which were actually because of problems of our institutional structures.

Representative of banking sector

““

The countries where there are individual Armenians making large investments. For example, Argentina is one of our investors, but, in fact, everything is at the expense of Eurnekian⁴¹. If you remove Eurnekian, there will be nothing left underneath. It is at the expense of individuals, again!

Expert⁴²

On the other hand, during our research, it became clear that the experts representing the field treat the data of official statistics with reservations, which suggests that they may not accurately express both the weights and trends presented in charts #1 and #2.

““

In terms of investment, our statistics are not really good... Even in the statements of officials, there are contradictions... For example, sometimes loans are included in investment, sometimes not... For example, we take the BOP [balance of payments], we look at foreign investment, etc. By instrument, we can see the gap, but we don't see firm-level data on investment. But in order to see how those investments were impacted, we need to see those micro things as well. If we had data on the investments of the companies, share in their turnover (employment, business), we could already judge whether those companies are growing or have arrived, made an investment, and that's it. ... We have a more detailed presentation regarding state investments, but not in terms of private investments, foreign investments.

Expert

““

... For example, it [the Statistical Committee] published information in 2022 on 2021 that 60 percent of investments came from Russia, 30 percent came from Germany, and the remaining 10 percent came in the category called other countries, which may include the Netherlands, Luxembourg... it could be any country, Croatia... In other words, this information should be disclosed. There is no detailed analysis...

Participant of group discussion with journalist-experts

Experts and key-informants explain the large weight of Russia in the list of the main investing countries mainly by political factors, that is, in fact, by the characteristics of the corrosive capital.

⁴¹ Eduardo Eurnekian is an Argentine billionaire businessman of Armenian descent.

⁴² Moreover, some media reports speak of “mutually beneficial” cooperation between Kocharyan and Eurnekian, and some details on sponsoring attitudes towards Eurnekian.

Source: <https://www.iin.am/2404709.html>

““

The main investing countries are Russia if I'm not mistaken, Germany, France. ...In the case of Russia, so to speak, it is a consequence of politics, in the case of the rest of the countries, the orientation of mining as a major sector. ...And there can be, so to speak, specific investments of years, related to some big project. For example, in the case of France, it was Orange (Telecommunications company) ...

Participant of FGD with analyst-experts

““

Well, the main thing is the Russians. So where are the Russians? In infrastructures, they are in the field of aluminum, electricity... and gas. The Russians have their shortcomings in this case. In essence, I think there may be some geopolitical pressure here.

Participant of FGD with analyst-experts

““

... Due to the geopolitical situation, closed borders and small market, the small part of investment in Armenia is truly foreign investment and investment that is truly aimed at economic gain. A huge part of investments in Armenia are political. A political decision was made that Armenia should have an aluminum factory in due time, which, yes, makes it possible to export aluminum from Armenia to the European countries, but that is a political decision. ...the railways of Armenia, yes, they have some positive dynamics in terms of cargo transportation, but in case of passenger trains, they work almost at a loss...

Journalist-expert

Some of the experts interpret the increase of Russia's weight in the mentioned time period by membership of Armenia in the EAEU in 2015. For the same reason, probably, FDI to the RA from investing organizations from several democratic countries has also been decreasing. In particular, Procredit Bank (Germany), Mobile operator Orange (France), Nasdaq OMX, which was renamed the Armenian Stock Exchange in 2019, effectively left Armenia.⁴³ Kronimet Mining (Germany) recently have sold its ZCMC shares and exited the mining industry.

““

You have to go and see how it was [in statistical data] before 2015. It seems to me that there is something drastic about the volumes. In other words, 60 percent was definitely not the Russian presence. I remember very roughly, but that's why I say it so as not to lose objectivity. ...But I am sure that if we look at those statistics, we will see a sharp increase in the Russian share after 2015. Because people feel more comfortable here due to, let's say, a customs union, an accessible area. That is, if you export to the EU, it is much more difficult, because there you have to go through standards, laboratories, millions of things, plus the customs are different, but here you are free in that zone...

Participant of FGD with journalist-experts

⁴³ Internal Brief; Assessment of current feasibility and relevance of the recommendations developed during the first phase of “Eurasia: Creating Enabling Environment for Constructive Capital” project. Prepared for the Center for International Private Enterprise by Artak Kyurumyan, 2021

In the list of countries with gross foreign investment inflows in the RA and being "authoritarian" by the Democracy index,⁴⁴ in addition to the Russian Federation, there are also eight countries, and even if they have a small share in the investments in Armenia, they can accumulate potentially corrosive capital. The list of the contributors is provided in Table 2.

TABLE 2. LIST OF COUNTRIES WITH GROSS FOREIGN INVESTMENT INFLOWS IN THE RA WHICH CONSIDERED "AUTHORITARIAN" ACCORDING TO THE DEMOCRACY INDEX

Countries	Classification ⁴⁵
Turkmenistan	104
Tajikistan	102
Iran	101
China	98
Belarus	97
Cuba	95
Egypt	91
Kazakhstan	89
Russia	88

For the analysis, it is necessary to understand the share of the nine countries included in Table 2 in total foreign inflows. Figure 3 shows the share of gross inflows in total foreign investments and gross inflows of foreign direct investment from the authoritarian countries. The graph below reflects the increasing weight of inflows from authoritarian countries. As can be seen, the direct investment ratio threshold exceeded 50% after 2019, which is relatively large considering the fact that in 2021 there were gross inflows of direct investment from more than 50 countries.⁴⁶

⁴⁴ EIU, Democracy Index 2021: the China challenge: Source: <https://www.eiu.com/n/campaigns/democracy-index-2021/>

⁴⁵ The higher the rank of a country, the more it leans towards authoritarianism.

⁴⁶ Armstat.am/Foreign investments: Source: <https://armstat.am/en/?nid=14>

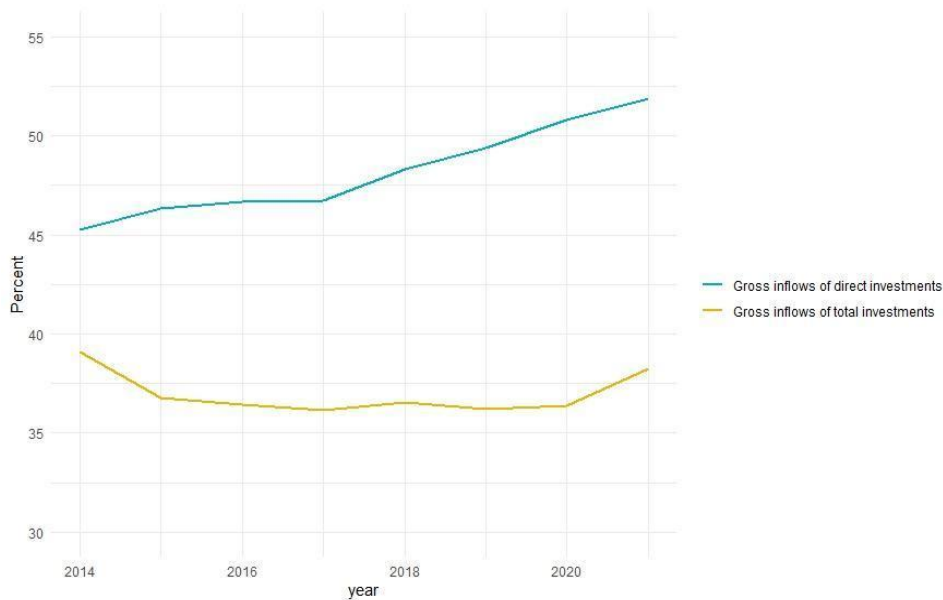


FIGURE 3. RATIO OF SUM OF INVESTMENTS FROM AUTHORITARIAN COUNTRIES OVER GROSS INVESTMENTS IN ARMENIA 2014-2021⁴⁷

In terms of net foreign investment inflows, the countries with authoritarian regimes are six: Iran, Russia, Cuba, China, Uzbekistan and Belarus. The monetary share of investment from these countries in net foreign inflows is presented in Figure 4. It is worth paying attention that in this case, it is not evaluated whether the correlation is negative or positive, rather, its absolute magnitude. It should be emphasized here that this ratio by itself cannot show the extent of the spread of "corrosive" capital, as it is calculated on the basis of net, not gross, foreign direct investment.

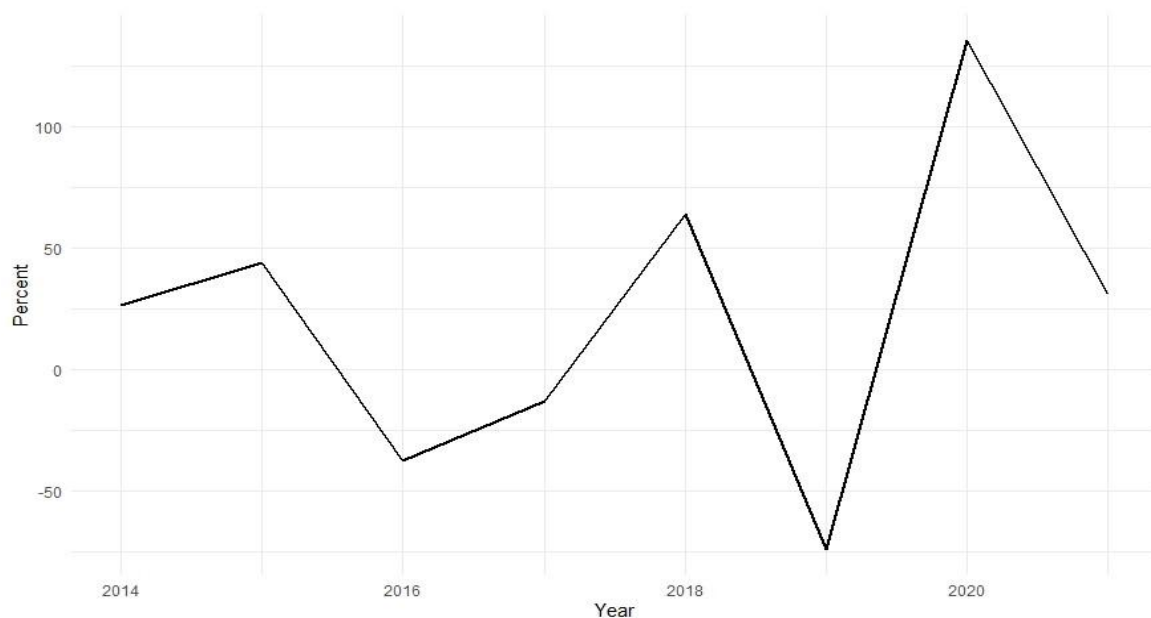


FIGURE 4. RATIO OF NET FDI FROM AUTHORITARIAN COUNTRIES OVER NET FDI IN ARMENIA, 2014 - 2021⁴⁸

As for the financial sector, in particular, the banking system, the list of countries that invested here is different. 63% of the shares of the RA commercial banks belong to non-

⁴⁷ Based on our calculations; Source: Armstat.am/Foreign investments: <https://armstat.am/en/?nid=14>

⁴⁸ Based on our calculations; Source: Armstat.am/Foreign investments: <https://armstat.am/en/?nid=14>

resident investors, and in the case of seven banks, they own 100% of the shares. Among them are Russia, Lebanon, the USA, Great Britain, Switzerland.⁴⁹

“

... For many years, the banking system has been attractive for investment, and quite a large number of non-residents, both individuals and legal entities, have always had a stake in the system... In addition to the fact that we say non-residents, some of them have serious financial structures... In addition to them, we also have the EBRD, which is a shareholder in one bank (before there were more, now it is only in one bank). The Asian Development Bank has a stake in a bank...

Business union representative

It is noteworthy that experts explain the attractiveness of banks with the strict regulation, transparency, stability, and development potential of the banking sector. At the same time, the clear regulations in the field and the fact of ensuring transparency are explained by most of the actors with the factor of effectively ensuring the supervision function of the regulator - the Central Bank. The mentioned are important conditions in terms of resisting the penetration of corrosive capital.

“

... [Banking] system is quite strictly regulated ... It brings stability to financial structures, that is, risks are reduced, and those investors who have chosen stable investments for long-term, and investments in banks are usually like that, that is one attractive feature for them. Second, Armenia, if we take into account the development of the banking system after the collapse of the Soviet Union, had great potential, that is, a smaller part of the population used banks, both in terms of loans and deposits. ... The third, the strict regulation brought a high level of transparency, very high... And since it was a developing country, the interest rates were also quite stable, quite attractive...

Business union representative-expert

1.2. THE DYNAMICS OF FOREIGN INVESTMENTS BY INVESTING COUNTRIES

An important indicator of the nature of capital can be considered the fact that, in addition to pursuing profit and providing high budget revenues, in which sector it is invested and what kind of outcome it aims to achieve. According to experts, the most effective and high-quality investments are those that contribute to the production of added value, institutional development, increasing the capabilities of the workforce and the use of innovative technologies, the development of international and intra-community logistics capabilities, the reduction of environmental risks (green investments), etc.

⁴⁹ According to the data provided by the Union of Banks of Armenia, there are non-resident shares in all Armenian banks. In total, 63% of shares belong to non-residents. 100% of shares in seven banks belong to non-residents. In six out of seven banks, the shareholders are legal entities. In 11 banks, the share of non-residents is more than 50%. International organizations have shares in Armenian banks: EBRD - 17.74% in one bank, ADB - 13.93% in 1 bank.

“

...Perhaps quality investment [is needed]. Not just to provide a quantitative indicator, but value-added investments [are needed]. ...In the government plan, it is stipulated to have a knowledge-based economy, perhaps we need investments that create knowledge and create added value.

Representative of state body

“

Globally, we need investments that will bring productivity growth. In my opinion, that is the most important thing. Well, because we have an obvious productivity problem. It seems to me that it applies to all sectors... The simplest is the agriculture. In other words, the lion's share of agriculture is still working with, let's say, traditional methods, and it is obvious that this causes business risks even after some time, or even today. ... Now, how the productivity growth that the country needs can happen? Foreign investment is a good shortcut here. In other words, the person who will bring the capital from outside will also bring his experience, technology...

Representative-expert of state body

“

... And even from the point of view of the same environmental impact assessment, at least the investments should change a little towards the greener investment sector and also the IT [sector]...

Representative of state body

The experts participating in the interviews notice that the investments in the RA are very concentrated, especially the mining industry is very attractive, as the legislation regarding the sector is also in favor of the investor. Almost without exception, all respondents consider this sector to be the most undesirable and inefficient for investments, considering the environmental consequences and the old technologies used. Another observation of experts, as well as official statistical data, prove that most of the investment capital in this field belongs to the organizations of Russian origin. In this case, as mentioned in the previous subsection, an important role was played by the geopolitical influence of the Russian Federation on the RA, as well as the Russian participation in the mining sector in the USSR region. At present, the investors (the largest shareholders) in almost all metal mines operated in the USSR region are Russian organizations.⁵⁰

⁵⁰ See “Armenia’s Metal Mines: Russian Businessmen Pocket Lion’s Share of Profits”. Source: <https://hetq.am/hy/article/117849>; Also, “Revealed and undisclosed owners of gold mines in Armenia”. Source: <https://hetq.am/hy/article/116955>

““

Let's say, who are the interested people coming to our country? We know that as a rule, and we can understand also from the data of the Statistical Committee from those countries, those organizations that either have a job to do in the mine or in the energy sector... And in construction.

Participant of group discussion with journalist-experts

““

...Most of the investments go to mining. In second place are investments in electricity, gas and steam. This is 64% of indirect investment, 15% of direct investment. This is mainly the Russian Federation, which invests in Armenia's infrastructure. In the third place is real estate, in which direct investments make 13%, and this is already the part of Yerevan, which are being built in the Republic of Armenia.

Participant of FGD with analyst-experts

The experts also spoke about investments in the field of information technologies and the problems related to them, stressing that, in fact, the existing legislation, despite some reservations, has created quite favorable conditions for the development of that sector. According to some experts, the reservations related to the sector need to be reconciled with the regulations of Western countries.

““

It can be said that the legislative base in the second block, the IT block, is quite well developed. Armenia has quite advantageous positions and competitive advantages compared to a number of other countries in the region, and in this regard, there are several directions that we need to complement each other in order to approximate the American legislation and, in general, the legislation of Western countries. ... This mainly concerns the implementation of investment models and investment instruments. Because when an investor comes to an unfamiliar country, no matter whether it is the IT field or another one, if there are no familiar tools for them, as they are used to working, it complicates the matter.

Representative-expert of international organization

The net foreign capital flows received from the six authoritarian countries (Iran, Russia, Cuba, China, Uzbekistan, and Belarus) discussed in Chapter 1.1 of Section 1 is invested in various sectors of the economy of RA (See Annex 3). It should be noted that the Russian Federation has the largest share of net FDI among the above-mentioned six countries. In recent years, Russia has a large share of net FDI in such areas as fishing and aquaculture, manufacture of food products, manufacture of leather and related products, electricity, gas, steam and conditioning supply, manufacture of computer, electronic and optical products, manufacture of machinery and equipment, other manufacturing, land transport and via pipelines, sports activities and amusement and recreation activities and in other personal service activities. It is necessary to add that the FDI net inflows in these sectors were positive or negative for different years.

1.3. ADEPTS AND PRACTICES OF CORROSIVE AND CONSTRUCTIVE CAPITAL IN THE RA

One of the important goals of this research was to find out which foreign investments inflows are corrosive or constructive for Armenia according to the key-informants and experts, what kind of specific practices they are aware of and what characteristics they mean when talking about corrosive or constructive types of capital. The answers to the mentioned questions are important not only for revealing certain ideas and practices, but also for identifying how much they are favorable for the penetration of corrosive capital, because, in the end, specific ideas often play a decisive role in the confirmation or exclusion of various harmful phenomena in any sphere of our life. In his negative and comical reaction toward one of the announcements of the Sanitek organization, the former mayor of Yerevan, Hayk Marutyan, literally said the following: "A big investor does not mean a good investor."⁵¹ And the reason is that, in our ideas, a big investor is often someone who is beyond evaluations of good and bad.

From the perspective of the prevailing ideas, naturally, it was not unusual and unexpected that a significant part of the participants of our discussions and interviews, and especially the majority of key-informants (representatives of state bodies, banking and business sectors) considered "wrong" or extremely theoretical the "corrosive" and "constructive" characterization of the investments. Some of them believe that other criteria of invested capital which have quantitative manifestations (volume, amount of profit, budget receipts, etc.) are important. Some of the latter are convinced that Armenia in general needs all kinds of investments, and there are, in fact, no risks of corrosive capital. Among them, natural monopolies are not risky either. There was also an opinion that capital can be political, work at a loss, but not be corrosive, as, for example, in the case of South Caucasian railways.

“

I'll tell you frankly, the risk [the risk of the inflow of corrosive capital] is not that big, don't focus on that for nothing. ...We don't have a big risk now. If clean money comes, I don't see a big risk. There is no such corrosive capital in the RA, that was received and used for such things? We don't have that kind of money in Armenia. Some countries may have such risks; we are not one of those countries.

Representative of business union

⁵¹ Being a great investor does not mean being a good investor. Hayk Marutyan about Sanitek | Source: https://www.youtube.com/watch?v=ReP_YRMWW34

“

... The railway is state-owned; it is not a business. Russian Railways is actually state-owned. And secondly, it is not an investment, it is a concession. They wanted to solve bigger problems and solve those bigger problems from the regional perspective. But not just to increase the role of Russia in the region, but later, whenever there were connections, to strengthen the position of the railway as a primary transporter. ... They had a number of problems, including always having a larger market for their railroad infrastructure. What does that mean: they have railway maintenance factories, etc., they produce wagons, they produce rails... Transparency is another matter. I want to say: don't look for only military-political logic here. There is also a certain business logic for the Russian railway.

Lecturer-expert

However, another small group of participants in our discussions and interviews tend to consider the nature of capital on the basis of other characteristics, which are attributable to "corrosive" or "constructive" capitals. Among them, transparency was mentioned most often. Moreover, experts mean not only the transparency of the transaction of registration of any foreign organization, but also the transparency of current activities. According to some of them, the corporate model of the organization's management is particularly important in terms of ensuring transparency.

“

All investments in the mining industry are corrosive, they all come from offshore... The beneficiaries of the Armenian stock exchange are not transparent, and still are not transparent...

Representative of banking sector

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In my opinion, most of the mining organizations are examples of corrosive capital, when we do not know under what buying and selling contracts, in general, under what contracts and conditions these mines are operating. The energy organizations, especially the big ones... Or, there are issues related to ENA [Electric networks of Armenia], they are examples of corrosive capital. Then, examples of corrosive capital would also be those legal entities that are created in such a special, pseudo manner, for just a transaction... Or let's say, they give each other loans, everyone gives each other long-term loans, so that you get tangled up, but it is black money...

Participant of group discussion with journalist-experts

“

...We are coming again to the field of corporate governance... The shareholder has the biggest role [in] attracting favorable capital or increasing the transparency and accountability of organizations, the shareholder's approach, and not only the shareholder's, but also the role of the board in the management structure, the board should be independent, regardless of the circumstances, whether the committee that oversees it exercising its independence function or not...

Lecturer-expert

““

Road construction is terrible, that is, it is itself in the form of corrosive capital. In such a way, the gas supply, that is, we do not know who, how, where, to whom, what, at what price. Soon there will be the energy too. ...Who received licenses to supply? There are many organizations that are closely and directly connected with the people of the ENA. "Hetk" wrote⁵² about it in a detailed manner.

Participant of group discussion with journalist-experts

The second most frequently mentioned investment practices are characterized by patronage and personal connections. Despite that in some cases the existing legal regulations facilitate the manifestation of the above-mentioned practices or at least do not hinder them, the majority of experts believe that such phenomena have a corrosive nature, as they exclude equal competition.

““

Well, now there is such a case that the Prime Minister's staff thinks that they have attracted investment. There is a restaurant... The state is a shareholder of the place. I don't know, after the Soviet Union, there has never been such a thing, that the state has a share in restaurants and taverns. Now the state is there... First, it is not normal that the prime minister's staff is dealing with it, that is, what should the staff of the prime minister of a parliamentary country do with the issue of such a restaurant, secondly, it is not normal that the staff has made an investment there... What should it do in other cases? Or let's say, the representative of the government should advertise the investor... So what, if the investor is coming with a lot of money, doesn't that affect the thing [competition]?

Participant of group discussion with journalist-experts

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What I am saying is that it should be in the legislation that if the community council is against... some investment project, the investment should not happen. Now it's not like that... I know of at least a few cases where the council of elders is against it, let's say, it makes a statement about something, but the investor talks to the government, in the end, and the paper of the council of elders gets lost as nothing...

Participant of group discussion with journalist-experts

““

I still don't understand why they are shaking the Government's hand. This is already an environmental issue... Those people understand that they are bringing a part of their wealth to this country and by shaking hands, they think that they are insuring their investments. That handshake process was a piece of nonsense to me. ... The shareholders have arrived and there is such a representation from the Government, including the Prime Minister, Deputy Prime Minister, Deputy Speaker of the National Assembly...

Representative of state body

According to the opinion of some experts, investing on ethnic basis leads to certain problems, but it is not correct to consider it as corrosive capital. It is more qualified as an "emotional" investment, which, while including risks, can also become a constructive investment. Specialists consider the issue in the framework of moving these

⁵² Referring to article published on "Hetk" on "Liberalization of the electricity market. who are the new suppliers?" | Source: <https://hetq.am/hy/article/142781>

investments from the emotional field to the regulation field and investing in realistic directions.

“

... As a rule, it is not constructive, but to call it corrosive, corrosion, would be a wrong wording here. Investments made by the diaspora are those investments that are difficult to distinguish: this is constructive, this is corrosive. There is also a third category. he is completely emotional. It can be both constructive and destructive...

Representative-expert of international organization

Some of the experts also draw attention to the situation of a number of organizations working at a loss for many years, in which they see extra-economic goals⁵³.

“

The railway network is definitely corrosive capital. ... [It operates with loss], that means that only politics is there, there is nothing else... The electricity sector came, it came to this situation, why? It was the result of corrosive capital, corrosive investment. He brought it to a place where you don't know anything, and they influence you with all the levers. We also know the history of Iranian gas...

Participant of group discussion with journalist-experts

One of the unique practices of foreign investments in Armenia, which according to the respondents can be considered as a manifestation of corrosive capital, is fake investments⁵⁴. At first glance, the negative side of these is being the subject of speculation for non-economic purposes (for example, during elections). However, in some cases, the description of similar practices reveals that their main corrosive feature is the lack of transparency.

“

In my opinion, our politics is characterized by fake and real investments. I have seen many fake investments. someone comes and says: I am building a forget-me-not building, someone comes and says: let's demolish the “kukuruznik”, see what kind of hotel we are making. And it seems that the state's policy is not such that those investments become real...

Participant of group discussion with journalist-experts

⁵³ One of the respondents admits that South Caucasus Railway's activity in Armenia pursues more political goals, however, they are not inclined to consider it as corrosive capital, justifying that its activity does not contradict RA laws.

⁵⁴ Among these, the capital of a number of organizations formed offshore can be included. See for example

“Armenian mines wandering offshore” | Source: <https://hetq.am/hy/article/136311>

“The documents of the offshore bank revealed the transactions of the owners of "Golden Palace". The National Security Service has withdrawn the criminal case from in front of the hotel | Source: <https://hetq.am/hy/article/116946>

According to some research participants, corrosive capital uses various mechanisms to avoid taxes and enriches itself through non-organic activities. One such mechanism is the creation of many small organizations that provide loans to each other;

““

Examples of corrosive capital would also be those legal entities that are created specifically and formally for such a transaction. ...An individual, for example, cannot go and buy this, an individual establishes five related organizations... In the end, it is so obvious that they aim to hide the origin of the money...

Participant of group discussion with journalist-experts

Key-informants and experts draw attention to the activities characterized by corrosive capital in a number of sectors today, which are a legacy of the past, and which, due to a number of circumstances, are difficult to combat.

““

It seems to me that the atmosphere has changed a lot now, the general system has changed, but I think Armenia is still suffering, to put it bluntly, even from the investments made 20-30 years ago. Because the contracts were signed, for example, by the authorities or other bodies for 20-30 years, without taking into account that they will be enforced in new conditions, in a new environment. And the state is not able to stop them early, or to change them, or in case of any problems, it does not have mechanisms in the same field of energy. We have so many contracts that we cannot do anything at the moment, but the question is: how transparent they are, and the accountability is very low there...

Representative of state body

““

... Until 2018, before the revolution, classic forms of corrosive capital worked for us... Up to 15 cases have been mentioned to me, how it turned out that an investor, coming to Armenia, having a very high profitability for one year, etc., in the end, forcedly left the country, selling all his assets to someone X, one of the representatives of the oligarchic system. We started with the second model, we tried to move after 2018, but here too, it is necessary to understand... Fixing the theoretical definitions does not mean that the investment will come to you. ...Your packaging should consist of several levels; one is the definition you gave, the other is the legal base under it and its implementation, the error and the most important, especially for countries like ours, the success stories and the fourth is predictability, the predictability of all these elements...

Representative-expert of international organization

As characteristics of constructive capital, in addition to reducing environmental risks, increasing the quality of the workforce, bringing technological changes, contributing to the growth of productivity and the development of institutions, the respondents mention the longevity of the investment, social responsibility of investors, anti-corruption attitude.

“

We need long-term investments; we need investments from serious institutions... In our country, the challenges are big, the changes are big, and we don't need money that runs away quickly. In other words, if someone comes after a short-term high interest, and wants to do something here, he will also run away very quickly, once the situation has changed a little or an additional risk has opened up. For that, I think there is a need for long-term investments by institutions.

Business union representative

“

... There is a flow of unconstructive capital... In contrast to it, we have an opportunity that has not been used: the capital market. ...When Armenian organizations are listed through the capital market, and their shares were bought by some shareholder of a Lebanese organization or an individual in Lebanon, it does not matter how he got rich, that person buys the share of the Armenian organization and that organization not only submits a report as a shareholder to its company, but also a stock exchange has its own rules of assuring the management is transparent and that the organization has well-known ESG or constructive, sustainable development elements, social responsibility, environmental responsibility [has], ...as well as some mechanisms to control corruption...

Representative-expert of international organization

Speaking about the adepts⁵⁵ of constructive capital, the respondents mainly mention IT sector organizations, Pernod Ricard Armenia, Orange mobile operator, organizations investing in the development of agriculture. According to experts, they not only contribute to the development of specific sectors and are aimed at increasing productivity, but also change the corporate culture in our country.

“

For example, I consider that Armenia's IT investments are quite constructive. In addition to creating a job, they also bring a very serious culture among people in the IT field, that is, the people in the IT field live in the same country with us, and that changes the culture.

Representative of banking sector

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For example, let's take the alcoholic beverages sector. ...The same Pernod Ricard – it is corporate ethics. It is also a technology in some way, although it is an area where technology is perhaps not the most important thing that can be done in the “grandparently” (referring to conventional) manner... That one organization that appeared in our country saved that area because it brought with it its management, the culture. ...Corporate management is often perceived very narrowly. It's not just CEO-board relations, its general management ethics, general business decisions, planning, let's say...marketing.

Representative-expert of state body

⁵⁵ Follower, supporter

PART 2. INVESTMENT ENVIRONMENT FROM THE PERSPECTIVE OF CORROSIVE AND CONSTRUCTIVE CAPITALS

A number of experts who have participated in Expert Interviews and Focus Group Discussions consider that the most important for the penetration and development of corrosive or constructive capital is not the external characteristics of the capital (purpose, origin, investment sector), but the fact what kind of favorable conditions they find in the host country.

In this regard, our studies more often reveal not directly the factors contributing to the spread of this or that type of capital, but the risks of the spread and expansion of corrosive capital. It can be said that the factors contributing to the spread of corrosive capital rarely show themselves directly. They are sought and found in the documents and decisions justifying and regulating the investment policy, the vagueness and ambiguity of their goals and implementation mechanisms, ineffective control mechanisms, as well as in various representations of their implementation, including the facts of the competence and consistency of the implementers. The risks of the spread of corrosive capital also increase due to the nature of the political system, the level of development of civil society, geopolitical influences, emergency circumstances and other factors.

2.1. STATE VISION OF INVESTMENT POLICY

The foreign investments concept of RA was developed in 2015.⁵⁶ Before that, the guidelines for the policy related to the sector were considered mainly the laws on Foreign Investments⁵⁷ adopted in 1994 and on Free Economic Zones⁵⁸ adopted in 2011. International experts consider that the RA investment legislation has no serious gaps and in a number of aspects (business registration, land availability) Armenia has even served as an example for other countries.⁵⁹

The respondents who participated in the research, however, note that the investment policy does not directly follow the concept and every subsequent minister or deputy minister who comes "does not like that strategy, does not implement it, rather, starts developing a new one". They note that the investment concept "does not go down to the bottom" and does not become a policy. Investors are also referring to the mentioned

⁵⁶ Extract from the minutes of the session of the Government of the Republic of Armenia, N 45 of October 8, 2015. Source: <http://www.irtek.am/views/act.aspx?aid=82676>

⁵⁷ The Law of the Republic of Armenia on Foreign Investments, adopted by the Supreme Council of the Republic of Armenia in 1994. H.N-1093-I. Source: <https://www.arlis.am/DocumentView.aspx?DocID=34872>

⁵⁸ The Law of the Republic of Armenia on Free Economic Zones, adopted in 2011. Source: <https://www.arlis.am/documentview.aspx?docID=69095>

⁵⁹ UNCTAD "Investment Policy Review- Armenia", United Nations, 2019, p. 8, Source: https://unctad.org/system/files/official-document/diaepcb2019d3_en.pdf

circumstance.⁶⁰ The lack of knowledge of most respondents about the main provisions of the concept in some sense also indicates the ineffectiveness of that document. This allows us to assume that the main problem is not having a good concept. You can have the best concept or policy guide in the world, but have no guarantees (working mechanisms) that it will translate into policy. Therefore, it does not make sense to analyze the gaps in the investment concept in detail. It is more important to highlight the reasons that make the concept non-working. In that sense, the general philosophy of investment policy, the real foundations and possibilities of its implementation can become the subject of examination. It can also be useful in terms of identifying the reasons for the penetration and expansion of corrosive capital.

In general, the approach of the Armenian authorities to different concepts is similar to the traditional perception that if a child is named *Yerjanik* (Happy) or *Arevshat* (Sunny), then the child will grow up happy and lucky. It gives the impression that the most important for policymakers are the declaratory acts, mentioning about democracy in the Constitution or mentioning about open door policy in the Investment Concept. And what kind of steps are necessary for *Yerjanik* to grow up happily and what are the real grounds for this, are often given secondary importance. The importance is given to the miraculous property of the concept. By the way, international experts also mainly pay attention and evaluate different concepts and laws. What are the real grounds and opportunities for their implementation, usually do not receive serious examination. In the best case, the concept and other laws and legal documents serving the conceptual laws are studied and evaluated.⁶¹

Uncertainties in the legislative documents related to implementation of the investment policy and the fact of the absence of sub-legislative acts are not the only way the lack of reasoning behind over-prioritization of declaration of investment policy goals manifests. The investment philosophy of open doors and free zones is faced with the lack of political, judicial, educational, and other institutions, adverse geopolitical influences, ethnic prejudices, lack or scarcity of investment-supporting resources and infrastructure⁶². The respondents speak about the listed problems, with their existence also acknowledged by international experts⁶³. And, despite that circumstance, for unknown reasons, their role is not properly evaluated and accounted for⁶⁴.

Undoubtedly, a significant part of the mentioned problems is due to the fact that the RA is still a “young” or, as it is commonly called, a transitional state, which, like other “young” states, is characterized by the assimilation of the best global experiences on

⁶⁰ UNCTAD “Investment Policy Review- Armenia”, United Nations, 2019, pp. 9-21, Source: https://unctad.org/system/files/official-document/diaepcb2019d3_en.pdf

⁶¹ UNCTAD “Investment Policy Review- Armenia”, United Nations, 2019, pp. 21-44, Source: https://unctad.org/system/files/official-document/diaepcb2019d3_en.pdf

⁶² These issues are discussed more in detail in subsections 2.5-2.10.

⁶³ See quotes presented across Part 2.

⁶⁴ UNCTAD “Investment Policy Review- Armenia”, United Nations, 2019, Source: https://unctad.org/system/files/official-document/diaepcb2019d3_en.pdf

the way to its establishment. But this is also a problem that is not taken into account when developing realistic concepts.

“

We can have 1000 concepts, strategies, but 90 percent of them all lack one important thing: measurability.

Journalist-expert

“

It seems to me that it is better for us to develop strategies and concepts than to impose control related to some application.

Representative of state body

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There cannot be a concept of foreign direct investment if we do not understand from the beginning what we want. ... There are countries that use foreign investments to create jobs, for example; not a bad project, but for Armenia, in my opinion, unreliable and pointless. There are countries that are trying to ensure technology transfer through foreign direct investment and bring about appropriate modernization in their country. There are countries that, in terms of foreign investment, are trying to integrate the given country into the relevant global value chain as a constituent part. There are countries that are trying to gain access to certain markets and increase markets through foreign investment. All these problems come from the fact that these countries first understand what they want, then build a conceptual document based on it...

Analyst-expert

2.2. LEGISLATION AND DECISIONS REGULATING INVESTMENTS

In the international report dedicated to the investment policy, many gaps and inaccuracies are presented in the legislative regulations related to the sector⁶⁵. This subsection mainly examines those regulations which are questioned by the respondents and which may be conducive to the penetration of corrosive capital.

The biggest drawback of the laws regulating the investment field, mentioned by the respondents, is related to their complexity and ambiguity. Moreover, this refers to almost all the laws regulating the field, which according to the respondents, are outdated for a long time.

⁶⁵ Ibid.

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As for the legislation, I think we should go the way of Georgia, which is to have a simplified tax, customs, or other legal system, because in that case businessmen don't get confused.

Representative-expert of state body

In some cases, it is not clearly defined which structures are responsible for the application of the law. Most of the respondents specifically target the RA law on procurement.

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Perhaps the most common case in Armenia is the influence of public officials in the field of procurement. And since currently we have legislative deficiencies related to the management of the conflict of interest, it is not possible to assess that effect, to ensure some legal process.

Representative of state body

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The procurement law is, in fact, quite comprehensive, well written, and even the partners with international reports rate the law well, but there is still a gap regarding implementation and control. The complete information (almost from the signing and application of contracts) is available on the relevant websites of the Ministry of Finance, Armeps, Gnumner.am, etc., where the press can also find and get acquainted. In other words, investigative journalism uses those resources, as does the [Corruption Prevention] Committee. But after signing the contract, control is already weaker. In other words, before signing the contract, everything may be fine, after signing the contract, some important things may change or the performance of the contract may go differently, but this is no longer fixed. There is no responsible [supervisory] body yet, and everything remains open.

Representative of state body

It is noteworthy that companies with a monopoly position in the RA economy are suspected of abuses of the Procurement Law.

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...Any company that either at the regional level, or at the country level, or at the industry level, has certain monopoly positions in any sector, for example, it is in a certain city, it has a monopoly position, or it is in some region, it is in Syunik, ArmRusgazprom [Gasprom], etc., I don't know, it has to, must follow certain rules of the game in its purchasing policy. Because through its purchases, it disrupts the competition. ...Only those gas stations whose existence will be acceptable for Zangezur Copper Molybdenum will exist in Kapan. We say what is the connection, the following: Who will the Zangezur copper-molybdenum combine buy gasoline from? That person will have a serious competitive advantage over everyone else...

Analyst-expert

Thus, the deficiencies in the legal regulations not only reduce the attractiveness of the investment field, but also create loopholes and favorable grounds for the penetration of corrosive capital.

2.3. INSTITUTIONS DEVELOPING, IMPLEMENTING, AND MONITORING THE INVESTMENT POLICY

During the field research, a number of risks and practices related to the penetration and expansion of corrosive capital were revealed, which are related to the structures that develop, implement and control investment policy, the transparency of their activities, personnel problems, the clarity of functions and the efficiency of activities.

In terms of functions, the Ministry of Economy is considered the main state structure that develops and implements policies. In order to promote and support investors and investments, the Investment Support Center (Enterprise Armenia Fund) was established, the chairman of whose trustees is the Prime Minister of Armenia. The mentioned structures have regulations that more or less match the international standards, that cannot be said about the structures that control the investment policy. Therefore, their missions and powers will be presented below in a more detailed way.

State Commission for Protection of Economic Competition

The Commission for Protection of Economic Competition is an autonomous body with a high status of independence, and according to the charter of the commission, the positions of the members of the commission are also autonomous. The structures performing the same functions are also independent and autonomous in Austria, Belgium, the Czech Republic and other EU countries. In most cases, the head of the structure is appointed by the president of the country based on the recommendation of the government or the parliament. However, there are also different cases, among which are:

- Estonia, where the authorities of the Commission for the Protection of Competition are part of the Ministry of Justice;
- Germany, where authorities of the Commission for the Protection of Competition are independent, but operate under the Federal Ministry for Economic Affairs and Climate Action,
- Spain, the country's National Markets and Competition Commission is independent of the government, but accountable to the parliament.

The RA Law "On Protection of Economic Competition" stipulates that "the commission carries out its activities in accordance with the Constitution, and is independent in performing its functions and powers". The right to nominate the chairman of the commission belongs to the Government, and the ruling and opposition factions of the National Assembly can nominate candidates for the vacant position of members. The

member of the commission is independent and, together with his family members, is under special protection.

Thus, from the legal point of view, the commission is much more independent than similar structures in a number of European countries, and its work is not subject to control. As evidence, it can be noted that the previous year's report on the committee's activities is being approved by the committee. The commission itself participates in the development of legal acts regulating the sphere of competition within the framework of state policy. In terms of transparency, it should be noted that the commission's decisions and conclusions, as well as information on its activities, including the annual report, are published: they are available on the commission's official website, mass media platforms and elsewhere.

Based on the objectives of this investigation, it is necessary to address the role of the commission in the control of state aid. Since the state aid limits the competitive conditions in the market economy, the commission carries out control of the given process in accordance with the law. The commission evaluates the admissibility of the assistance and gives permission to receive it on the basis of the relevant application. Prohibited assistance is subject to refund and/or termination. In addition, the commission carries out control over state purchases: *"We also have control over state purchases. ...If there are competition problems in purchases, we consider them."*

RA Public Services Regulatory Commission (PSRC)

Like the Commission for the Protection of Economic Competition, the PSRC is also an independent state body that operates on the basis of the RA Law "On the Public Services Regulatory Body" of the RA Constitution and other legal acts. The positions of chairman and members are autonomous and independent. PSRC candidates are appointed by the National Assembly, however, the candidacy of the president is proposed only by the Government, and the members are proposed by the Government and then by the ruling and opposition fractions of the National Assembly. One feature should be noted; the number of employees of the commission should be agreed with the Prime Minister.

The commission's functions include setting the "rules of the game" of the market, setting the rules and quality standards for service provision in individual branches, regulating and controlling licensing processes, setting tariffs, regulating and controlling the quality of service, as well as studying investment programs presented in its field of activity. The activities of the PSRC are also regulated by the following laws and legal documents:

- Law of the Republic of Armenia "On Energy"
- Water Code,
- RA Law "On Electronic Communication",

- Law of the Republic of Armenia "On setting and revising the tariffs for the provision of services for the mandatory technical inspection of vehicles with means of technical defect detection"
- RA Law "On Licensing",
- RA Law "On Foreign Investments",
- The law of the Republic of Armenia "On Mandatory Fees for the Regulation of Public Services"
- RA Law "On State Duty".

In addition, the activity of the commission is also regulated in accordance with the EAEU legal documents, because the agreement on the establishment of the EAEU envisages the creation of unified rules and principles for regulating the activities of legal entities considered as natural monopolies. One of the clauses of the agreement envisages the use of such regulation mechanisms that will allow to ensure independence, transparency, and impartiality of decision-making.

Taking into account that the PSRC regulates the activities of natural monopolies, decisions on the functions of legal entities operating in this field are made jointly with the Commission for the Protection of Economic Competition, on the principle of cooperation. Being an independent body, the commission participates in the development of state policy documents within the scope of issues related to its activity. The results of the commission's activities are published on the PSRC website in the form of annual reports, and each year's program is also presented to the National Assembly. Along with the mentioned information and other informative materials, access is ensured through the official website of the PSRC and mass media platforms. In order to ensure the transparency of the regulatory processes, there is also the "Procedure for accreditation of representatives of the press and other mass media in the Public Services Regulatory Commission of the Republic of Armenia" approved by the commission.

Comparing the legal bases of the activities of the two above-mentioned commissions, the following should also be noted: Annual reports on purchases made for the needs of the Commission are available on the website of the Commission for the Protection of Economic Competition. The website of PSRC provides the links from where it is possible to get information about the procurement procedure performed by the commission.

Corruption Prevention Commission

The main functions of the Corruption Prevention Commission are "monitoring compliance with requirements and other restrictions on incompatibility of high-ranking officials, as well as compliance with rules of ethics, situational conflict of interest regulations for high-ranking officials, except for deputies, judges and prosecutors" and regulating the declaration processes. In addition, an anti-corruption committee was established this year, the main role of which should be the identification and investigation of corruption cases. Along with that, since 2004, the Anti-Corruption Council has been functioning, which is headed by the Prime Minister, and the individual

staff includes government representatives and other government officials. It should be noted that the anti-corruption courts are in the process of being formed. Currently, six judges have been appointed, and the first anti-corruption court is operating, which is already considering cases of corruption crimes.

The commission is a collegial autonomous body, whose chairman is elected by the members with a majority of votes. Unlike the above-mentioned commissions, the positions of members of the Corruption Prevention Commission are considered civil. The process of selecting members is also different. A special competition council is formed by the National Assembly for the election of members. The members of the commission are independent and are guided only by the Constitution and laws of the Republic of Armenia. The activity of the commission is transparent, the reports and programs on it are subject to open publication on the official website.

In general, the basis of the fight against corruption in 2019-2022, has been the anti-corruption strategy. The development of the strategy for the coming years will be based on the successes and failures of the implementation of this strategy (as was the case with the current strategy). This document states that one of the shortcomings of the "anti-corruption strategy and its implementation in 2015-2018" is the lack of a structure for its current monitoring, as well as the lack of analysis of the effectiveness of the implemented measures, which makes the implementation of the strategy formal. One of the problems of the implementation of the previous measures was also the lack of a clearly formed framework of the structures implementing the strategy, which has been solved now.

When talking about the economic structures related to investments, the respondents basically admit that the information is available, reports and projects are posted on the websites, but in terms of content, they are usually unambiguous and incomplete, and sometimes also methodologically outdated. The respondents see a gap in transparency in all of that. Experience shows that such realities often contribute to a decrease in the authority of these structures, which leads investors to solve their problems with the help of, so to speak, non-statutory relations;

“

I think it's not so transparent... For example, I'm an investor, I want to invest in the tourism sector, where should I get information about what's happening in that sector, especially which branches are worth investing in Armenia... The Committee provides statistics, but those statistics are neither deep and comprehensive, nor analyzed. We came to the Ministry of Economy. The structure must have services, analyses that I can take and see in which sectors investments can be made, or which priority directions have been announced: winemaking, agriculture, IT sector.

Journalist-expert

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Second, there are formal mechanisms, but there is nothing formalized regarding formal mechanisms. Suppose we put it in e-draft, we got 30,000 opinions, moreover, 20,000 of those 30,000 opinions in many cases came from the same source, with different e-mails. Then how do we do it, what do we do? that piece is weak, ...accountability. ...In the summary sheet, it is mentioned that so many things have come, that we have accepted this, and that we have not. But a summary narrative, what are we for globally, out of 10 main topics that were raised, 8 were accepted, 2 were not accepted, what was the logic behind it, it is missing.

Analyst-expert

Some of the respondents see the problem of transparency in the obsolescence of communication mechanisms. One of them notices that:

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"We have systems where they don't answer by calling, you have to write a note, wait 15 days, call one more time, and they answer you one more time. The world is moving, there is a new word, they say agile, but agile is moving, we are still lacking in facts... If we want to attract investors to this small country of ours, we must do our work among ourselves, understand if our tax system allows us to be flexible.

Representative of banking sector

Another group of problems related to the investment policy, which the respondents voiced, refers to the existing contradictions between the functions of different structures, or as one of them mentions with the example of the Ministry of Economy, "the ministry's work is not synchronized with other structures". Investors often do not understand which structure is responsible for what. Bureaucratic hassles, which are often cited by respondents, are mainly the result of these factors.

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...The statistical committee says: look, I consider this a foreign investment, the Ministry of Economy says: no, this is not correct, the Central Bank says: no, but you have to take this into account. Now, it turns out that our executive power, the financial power, the Central Bank, the statistical service, each have a different opinion about which one it is.

Representative of international organization

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The main problem in our system is access to clear, comprehensible and non-disagreeable information, because you go to one department, they say one thing on the same topic, you can go to another department, they say something else...

Journalist-expert

According to the respondents, the insufficient authority of these structures hinders the full performance of their functions by the structures related to investment policy.

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...The function of [the Ministry of Economy] is investment policy, but that function is more advisory. In other words, they might work with some person, and then in the end nothing will happen, because they might go upstairs and be silent there. ... It is about planning. Usually, there should be a financial resource under it, and that financial resource will be managed by that ministry. ...In other words, the authorization to make a decision should be divided depending on the size of the investment. ... 50-100 million dollars is under the responsibility of the Ministry of Economy, moreover, the government should be appointed, suppose the Prime Minister decides. In other words, the person who heads the Ministry of Economy must have leverage, leverage in the form of money and authorization. If there is no such thing, then their work was in vain. ...Someone makes a fuss at the top, his person or he doesn't like it, that's why this mechanism doesn't work. If we put it in a broader way, we are talking about the independence of the ministries.

Participant of FGD with analyst-experts

According to another respondent, the will of those responsible for the full implementation of institutional functions and interest in the end result is often lacking.

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... The problem lies in the fact that it is due to the human factor, not some structures. In other words, if it is the head or, I don't know, the head of the unit, the deputy minister, the minister, they need cooperation, they are able to form those mechanisms very quickly, form working groups, organize discussions. But there comes a moment when that issue becomes non-priority on their agenda, even though if we look at our government's plans, the various international obligations that the Government has undertaken, corporate governance, investment environment, they should occupy the first positions. ...But what is the problem? we are not focused on the end result. Of course, I understand that improvements in corporate governance or improvements in the investment field have a beginning but no end, but we could, for example, set intermediate targets, analyze the processes to achieve these intermediate targets, see where we went wrong, make adjustments...

Analyst-expert

Some respondents see one of the reasons for the incomplete performance of their functions by the above-mentioned structures in the lack of professional personnel.

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Look, the biggest business structure in the world, the biggest business network, these are the chambers. There are many state institutions, I don't know, private, public, associations, there are many, but in terms of business, if we want to show a serious approach, I think that first of all we should go to the chambers. But it takes enough team to work with the chambers...

Representative of state body

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...Commissions should monitor that you do not have the right to make a purchase because you did not make public tenders. During public tenders, you should have independent evaluators to evaluate the results of the tenders, because if you don't do that, you actually bring about the destruction of the entire system, the destruction of the economic environment, within the framework of the public mandate.

Analyst-expert

A large group of raised issues targets the activity of the structure of the National Institute of Social Sciences and Humanities, in particular, its level of independence and objectivity.



...Following the work of the structure [State Commission for Protection of Economic Competition] from the side, it gives me the impression of some kind of analytical center. Because they do more analytical work of that type, but it seems to me that they don't do real steps that bring them to a competition field.

Representative-expert of state body



... State Commission for Protection of Economic Competition should ensure fair economic competition. If they implement what is written at the moment, the next question will arise: how to improve it. ...I can attribute the problem to that independence, that in some ways they are constrained to establish certain rules of equal playing for all businessmen. ...Then there is another thing. No matter how long the SCPEC is a club, the victims and fines are terrible for the SCPEC, and their selective application also has a rather negative effect on the business environment...

Analyst-expert

2.4. MARKET AND COMPETITION ENVIRONMENTS

Local and also international experts explain the low attractiveness of the Armenian market due to its small size, in particular, small population and low consumption capacity. According to them, the investors can, at best, "produce some things here and export them to the markets of other countries." However, the weak attractiveness of the investment market is not only due to its small size. For a constructive investor, opportunities for equal competition in the market are no less important.

One of the experts notes that "if there is a monopoly in any country, in any sector, do not expect investments in that sector⁶⁶." There is a high degree of concentration in a number of Armenian markets, which actually limits both foreign and domestic investments⁶⁷. After independence, many assets remained in the hands of the state, which, as a result of privatization, led to the concentration of the market. Such sectors include forestry, power generation, electricity, fuel and gas distribution, and rail transportation, which have typical monopoly market structures⁶⁸.

According to the observation of one of the respondents, Armenia can be classified as one of the weak markets, the information about which is not public and "a huge part of

⁶⁶ Representative of business union

⁶⁷ UNCTAD "Investment Policy Review- Armenia", United Nations, 2019, p. 10 | Source: https://unctad.org/system/files/official-document/diaepcb2019d3_en.pdf

⁶⁸ Ibid.

the economy of which still remains in the shadows.⁶⁹" According to another respondent, "there are hundreds of mining companies, most of which lack accountability.⁷⁰"

The non-transparent and non-accountable behavior of several companies with a monopoly position is also manifested in their arbitrary pricing policy. The prices set by them for goods and services do not follow international trends. *"In key public services such as energy, water supply and telecommunications, the pricing process is not transparent enough to reflect the public interest.⁷¹"* The respondents see the reasons for such manifestations in the privileges provided by the state to these companies by law. For natural monopolies, rules of the game ensuring transparency have not been developed, and the principle of commercial secrecy applies to a private investor⁷².

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... Under that commercial secret, the public actually gets corrosion of relations, because both distribution networks, Hrazdan Cascade, and... I can continue this series. All these are vivid examples of how our institutional system is exposed to corrosion.

Analyst-expert

A number of practices registered during the field research confirm that in some cases the state institutions themselves participate in the processes that distort competition, taking advantage of the loopholes "provided" by the legislation.

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... There is such a case that the Prime Minister's staff considers him to have invested. There is a restaurant... Let's say, the state is there. ... It is not normal that the Prime Minister's staff is dealing with this... What should the Prime Minister's staff of a parliamentary country be doing? ... It is not normal that he made an investment there... Why should the representative of the government advertise the investor in other cases...

Journalist-expert

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... "Hard Rock's" investment is a concrete example of a corrosive investment because it erodes the competitive field. It led to the fact that, say, "Paul" restaurant is established next door (or was established), or, say, "Segafredo" exists, or "Coffee Shop" exists, etc. And those people have the right to ask, to say: "we have also invested money, why does the public money of Armenia go to help the investor of the Hard Rock Cafe, and not to help, for example, the "Paul" restaurant, not to mention the "Ostan" restaurant, which is an Armenian restaurant". The problem is not only the politicized investments, but the model of management of these investments by our state should also assume great responsibility. When you direct investments, you must understand very clearly for what sake, and the public

⁶⁹ Representative of banking sector

⁷⁰ Representative of international organization

⁷¹ BTI 2018 Country Report – Armenia, Bertelsmann Stiftung 2018. Source: https://bti-project.org/fileadmin/api/content/en/downloads/reports/country_report_2018_ARM.pdf

⁷² RA Law On The Protection Of Economic Competition, Article 16 | Source: <https://www.arlis.am/documentview.aspx?docID=90816>; Natural monopolies | Source: <http://www.eurasiancommission.org/hy/act/energetikaiinfr/transport/Pages/estestv.aspx>

must understand that very clearly too, say, “I [opened] Hard Rock because I had such and such goals.”

Analyst-expert

Respondents also blame the controlling state commissions, particularly, State Commission for the Protection of Economic Competition for the over-concentration of markets and limiting the opportunities for competition in a number of areas. Although the powers of this structure have been increased in recent years⁷³, the assigned functions are not effectively implemented due to a number of reasons.

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... It is the problem of the commissions, the commissions must regulate it, the commissions must assure that you do not have the right to make a purchase, because you did not make a public tender. During public tenders, you should have independent evaluators to evaluate the results of the tenders, because if you don't do that, you actually bring about the destruction of the entire system, the destruction of the economic environment within the framework of the public mandate...

Analyst-expert

In some sectors (e.g., banking), state institutions are not inclined to allow the appearance of new competitors, considering the amount of investment capital. Therefore, the process of registering a business can be unnecessarily delayed.

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If I get 60,000 euros as an investor, the law says I can open a bank. I am not sure whether this process will take place within the short term stipulated by the law, in case I came and brought 60 thousand. They will again discuss whether an additional bank is needed, whether I can manage that bank, whether it can be a competitor. Because it is written in the law that they can consider for themselves whether this bank will cause systemic risks. ... In any case, it's not a smooth process, I'm sure. The law says, you bring the documents, you present them, you give preliminary consent, you go to work, then you go to register in the preliminary legislation, there are stages like this for the license. It seems that your papers are ready very quickly in those stages, but suddenly the state does not want something new to come, because they clearly say that they do not want that, as 18 banks are plenty already, that there is no need for a new bank. ... The state should not decide whether it is too much or too little. People do not commit crimes, they create businesses, they want to work. Let there be competition, whenever there is competition, you will understand the entry of new players. But new players may come, old players may leave, so the market will be healthier.

Representative of banking sector

According to a 2019 report on the RA Investment Policy, shareholders in Armenia have certain difficulties with access to voting rights and information, which can also be considered as a circumstance that reduces the opportunities for market competition.

⁷³ Statistics show that the enhanced powers of the Commission have led to more active enforcement. For the period 2010–2017, the Commission reports that 425 market studies were undertaken, and 1253 proceedings initiated, the bulk of which dealt with mergers and unfair competition. Hundreds of decisions were appealed in courts, 83 of which were left unchanged.

UNCTAD “Investment Policy Review- Armenia”, United Nations, 2019, p. 37, Source: https://unctad.org/system/files/official-document/diaepcb2019d3_en.pdf

In summary, we should note that according to assessments of the 2019 Global Competitiveness Report, the competition in the RA domestic market is rated 63 points out of a maximum of 100. Accordingly, Armenia ranks 24th in the list of 141 countries⁷⁴.

2.5. JUDICIAL SYSTEM

During 2017-2020, the Judicial Independence Index for Armenia increased from 0.36 to 0.49. Despite this, several studies showcase that courts are still one of the spheres holding the lowest rank in Armenia. That said, it is hardly a coincidence that the participants of this study reflected on some judicial practices when talking about foreign investments. Particularly, one of the most often mentioned features is the lingering processing time of court cases, which result in costly harms to the investors financially and temporally. To avoid such issues, investors are often left with either dropping their business activities or bring in alternative measures, including bribing the judges, establishing personal ties with local authorities, getting into “mutually beneficial” bargaining – all typical characteristics of corrosive capital. As per our respondents, experienced investors pay close attention to how developed the judicial system is in the country, before considering investing there, to foresee how swiftly problems of legal nature can be resolved in case such arise. If a system is not well developed, hardly will a law-abiding investor be willing to invest in a given country; effectively, if more such investors decide to refrain from investing in the country, the field will be left only to those investors who are eager to contribute in line with the features of corrosive capital.



There is an issue with the productivity of government system, especially the judicial system. Investors are quite skillful in assessing how long it will last to resolve a possible dispute with a partner or the state in the conditions of the standing judicial-legal system. ... Say, 1 year, 10 years, or 20 years? In the current judicial system and legal system, and generally, from the perspective of productive governance, this [situation] isn't contributing at all to investors being insured from such risks.

Participant of FGD with analyst-experts



I think, the insufficient trust towards the judicial system can be a very serious challenge, in this sense. Because, as per our laws, all disputes in the investment sector are regulated through the judicial legislation, and that means that efforts should be taken also towards increasing the level of trust for courts.

Participant of FGD with business community representatives

According to queried experts, one of the reasons behind the discussed challenge is the absence of people specialized in intermediary court structures and special economic matters.

⁷⁴ See The Global Competitiveness Report 2019 | Source: https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf



...The court system should be effective and timely. Namely, one cannot apply to the court with a case that deals with millions (meaning, large funds) and is a real challenge to their business development and then wait for years before the judge will make a decision. For this, there need to be economically specialized judges and courts... at least, specialized judges, which will provide swift resolution to cases... These can be [courts of] arbitration; there should be a pre-judicial practice of some kind, before [the case] enters the court.

Journalist-expert

One of the issues related to accessibility and flexibility of judicial system is perhaps the fact that insolvent enterprises have almost no chance to reorganize. Since it is in the interest of banks to confiscate pledged property and to directly collect mortgages, they usually solve the case by declaring the enterprises bankrupt and dissolving them⁷⁵. Such cases are rarely appealed in court. In the previous years, Armenia has been holding the 95th rank (44.6 points) in terms of resolving insolvency. Georgia holds the 64th place with 56.2 points. IMF 2018 country report pinpoints that the future reforms should be directed at increasing the successful cases and maximizing the recovery of bankrupt creditors⁷⁶.

Henceforth, based on the analysis of relevant documents and expert opinion, it can be noted that the standing judicial-legal system creates suitable environment in Armenia for corrosive capital, at the same time hindering the possibility for transparent, accountable, long-term investment influx.

2.6. POLITICAL SYSTEM

Some experts view the democratic political system of the country as one of the most important preconditions for receiving foreign constructive capital⁷⁷. This said, alongside the democratic status declared in the standing Constitution of the Republic of Armenia, it is important to take into account the Parliamentary elections of 2018 and 2021, which were conducted according to the standards of democratic elections (which, the current Armenian authorities view as the most significant achievement under their government). Another point that the ongoing authorities note frequently in the recent years is the fact that Armenia was one of the two invited states⁷⁸ in the online summit of democratic countries in the Fall of 2021.

⁷⁵ World Bank. (2020). Doing Business 2020: Economy Profile: Armenia, Comparing Business Regulation in 190 Economies: Source:

<https://www.doingbusiness.org/content/dam/doingBusiness/country/a/armenia/ARM.pdf>, page 59

⁷⁶ IMF (2018). Republic of Armenia: Financial System Stability Assessment – press release; staff report; and statement by the executive director for the Republic of Armenia, IMF Country Report No. 18/361

⁷⁷ Democracy Talks: Andrew Wilson, Center for International Private Enterprise: Source: <https://www.bushcenter.org/publications/articles/2020/05/democracy-talks-andrew-wilson-center-for-international-private-enterprise.html>

⁷⁸ “US invites Armenia to participate in the forum “For Democracy””
Source: <https://www.azatutyun.am/a/31547327.html>

Several international democracy indexes also acknowledge Armenia's achievements towards democracy. Particularly, according to 2022 Freedom House report on "Nations in Transit", Armenia has improved its place by 7 units, receiving 3.04 points⁷⁹. In the same lines, Prime Minister Pashinyan put forth that democracy is Armenia's main international brand, at the Armenian forum on democracy, May 2022⁸⁰.

Nevertheless, the same Freedom House report classifies Armenia as a hybrid democracy, with a 34% level of democratic advancement⁸¹. This implies that political institutions still must establish further⁸², and the public accountability mechanisms still need to be improved. Many instances exemplify that many government decisions, including ones in regard to country's economy, are being made without accounting for the opinion of expert cycles and the wider public⁸³. Moreover, there are still issues related to proper implementation of investment regulations and decisions by relevant state bodies⁸⁴.

From the perspective of formation of democratic system in Armenia, the involvement of two businessmen (i.e., Khachatur Sukiasyan, Gurgen Arsenyan) in the leading party group in the Parliament, due to parliamentary elections, is viewed as a step back⁸⁵, while "My Step" parliamentary alliance formed through the 2018 elections, did not have similar businessman, which the alliance has been viewing as commendable. Kyurumyan notes that Pashinyan had been the one demanding the separation of business and the state, especially emphasizing that during the 2018 speech addressing his government's program to the National Assembly⁸⁶.

Plurality of the respondents of our group discussions and interviews reported having some difficulties in characterizing the nature of Armenian political system as an environment for corrosive or constructive capitals. It should be noted that discussions on viewing foreign investments in those lights are not observed in the public discourse⁸⁷,

⁷⁹ "Armenia has made progress in Freedom House's new report assessing the level of democracy"

Source: <https://iravaban.net/379029.html>

⁸⁰ "Pashinyan once again declares that democracy is the main international brand of Armenia" | Source:

<https://www.azatutyun.am/a/31859850.html>

⁸¹ "Armenia has taken steps to strengthen democracy, but it is still not a democratic state. Freedom House" | Source: <https://www.azatutyun.am/a/31813865.html>

⁸² "Nevertheless, although free and independent elections are held in states with a hybrid regime, these states are also characterized by institutions with weak democracy, and this is also a call to the Armenian authorities to speed up the process of institutionalizing democracy and applying them in all government bodies," Shirinyan says. Ibid.

⁸³ Focus group discussions, expert interviews, key-informant interviews, media reports; see, for instance, "Left alone with its problems, the Central Bank will have to raise the refinancing rate, and exports will be directly hit. Vardan Aramyan" (Source: https://finport.am/full_news.php?id=46499&lang=1); "Either there is no desire, or there is no understanding. Gagik Makaryan about the Prime Minister-businessmen meeting. "Fact" (Source: <https://www.1in.am/2793815.html>)

⁸⁴ Ibid. See more in 1-4th subsections of part 2.

⁸⁵ "CC could not stand it anymore. money holders will be listed" | Source:

https://epress.am/2021/05/25/qp_cant_differenciate.html

⁸⁶ Internal Brief; Assessment of current feasibility and relevance of the recommendations developed during the first phase of "Eurasia: Creating Enabling Environment for Constructive Capital" project. Prepared for the Center for International Private Enterprise By Artak Kyurumyan, 2021

⁸⁷ In the post-revolutionary Armenia, media was circulating the term "economic democratization", but not as an achievement of a democratic system, but as a precondition for its establishment. This term, however,

despite that in the new vision for investments, assuring of transparent legislative regulations, accountability, and participation essentially derive from fundamental principles of democratic political system. Furthermore, our primary data analysis showcases that the majority of key-informants are unaware of that concept; this might also be the result of awareness on such practices where countries with obvious authoritarian systems see an efficient investment by businessmen representing democracies.



[Having a democratic system] is important, but the most important is... Large institutional investors, investing foundations, they are rather interested in the rules of the game, and not how much human rights are protected. China is an example of that. And there are many countries that aren't democracies but there are investments. They come, because the rules of the game are clear, because there is predictability in dispute resolution, whether through national judicial system, or alternative dispute resolution, say, arbitration or mediation... Predictability is key here.... Our past successful or failed investments are not always related to democracy, human rights or transparency... On a 1-10 scale, I will give 5 points to the importance average foreign investor gives to country's quality or level of democracy.

Representative of international organization

2.7. CIVIL SOCIETY AND PARTICIPATION

In the studies carried out in a number of Eastern European countries, the role of civil society is highlighted as a factor preventing the penetration and development of corrosive capital.⁸⁸ It is believed that the role of civil society is particularly important in terms of influencing government decisions. In that sense, although everyone in Armenia has the right to participate in decision-making, and the legal framework provides a number of opportunities for the participation of citizens and CSOs, the mechanisms of responsibility for not fulfilling the participation requirements are insufficient. According to the Constitution of the Republic of Armenia, citizens can present initiatives and manifestos of legislative projects to the decision-makers.⁸⁹ There is a separate provision in the Law "On Normative Legal Acts" regarding the mandatory public discussion of draft legislative acts. The duration of public discussions is at least 15 days. The results of public discussions and the draft of the revised normative legal act are also subject to publication. If a project was presented to the government without public discussion, the government can return it to the presenting body.⁹⁰ These provisions, however, do not apply to legislative projects initiated by the Parliament, as well as proposed by civic

did not spread much. See "Since there is no economic democratization, talking about political democracy is just an illusion" | Source: <https://infocom.am/hy/article/5300>

⁸⁸ See, for example, Danger Almost Deferred? Chinese Corrosive Capital in Bulgaria and Romania, by Rumena Filipova: Source: <https://ceias.eu/chinese-corrosive-capital-bulgaria-romania/>, Many a Mickle Makes a Muckle. Chinese Corrosive Capital in Croatia, By Nina Pejić <https://ceias.eu/chinese-corrosive-capital-croatia/>, Oligarchs and Party Folks. Chinese Corrosive Capital in Slovakia and Czechia. By Matej Šimalčík: Source: <https://ceias.eu/chinese-corrosive-capital-sk-cz/>

⁸⁹ RA Constitution, Article 109/6. Source: <https://www.president.am/hy/constitution-2015/>

⁹⁰ RA Law "On Normative Legal Acts", 21.03.2018, last updated. 19.04.2021, articles 3 and 4. Source: <https://www.arlis.am/DocumentView.aspx?DocID=152139> :

initiatives.⁹¹ The non-application of the requirement of public discussions in the case of parliamentary projects is the most obvious problem of the legal framework of the field of participation. In addition, with the legislative amendments adopted in April 2021, it was established that the legal acts related to the military and state of emergency are not subject to mandatory public discussion,⁹² which is also one of the limitations of the legal framework. "In practice, during 2020-2021, a number of laws and government decisions were adopted without public discussion⁹³."

As a result of the Artsakh war of 2020, in the light of the political unrest within the country and the counterpropaganda against the CSO, the current government of the RA "took a self-defensive position and further distanced itself from the CSO community. Thus, the practice of involving CSOs in decision-making decreased even more⁹⁴." On the other hand, "a number of initiatives restricting freedom of speech appeared on the government's agenda, which were due to the growing volume of hate speech, disinformation and sharp criticism of state officials (sometimes reaching insults or being perceived as such). After the extraordinary parliamentary elections on June 20, 2021, public tension and campaigns against CSOs eased a little⁹⁵."

"The CSO's communication with the government, both at the institutional and practical level, is closer compared to the parliament's communication. There were also several successful cases of dialogue and cooperation. However, in the last two years, CSOs have seen a decline in participation, in contrast to the open working style of the government recorded in the early post-revolutionary period and the high expectations of CSOs. There is a lack of proactive public engagement efforts by the state and lack of interest in CSO expertise, and the impact of CSO participation is limited. In some communities, there are positive trends in transparency and participation due to the personal attitude of community leaders, as well as consistent advocacy by local CSOs." However, in general, the level of participation at the local level is low⁹⁶." There is no progress regarding the implementation of the recommendations of the 2019 "CSO Meter" report⁹⁷.

Of course, there are also examples of certain successes, including in the field of decision-making related to foreign investments. In 2019, under the resistance and pressure of the CSOs, it was possible to stop the further exploitation of the Amulsar mine by Lydian

⁹¹ RA Law "On Normative Legal Acts", article.

⁹² RA Law "On Making Additions and Amendments to the Law "On Normative Legal Acts", 19.04.2021. Source: <https://www.arlis.am/DocumentView.aspx?docid=152130>

⁹³ CSO Meter, 2021, p, 28. Source: <https://transparency.am/hy/publication/287>

⁹⁴ CSO Meter, 2021p 5-6: Source: <https://transparency.am/hy/publication/287>

⁹⁵ CSO Meter, 2021p 5-6: Source: <https://transparency.am/hy/publication/287>

⁹⁶ CSO Meter, 2021p 27-28: Source: <https://transparency.am/hy/publication/287>

⁹⁷ The surveys of the Caucasian Barometer in 2021-2022 prove that the rating of the CS/O sector in the RA has registered a certain decline after the war of 2020. The total percentage of those who trust CSO organizations is 28.7 (5 percent fully trust, 23.7 percent rather). CRRC Armenia, Caucasus Barometer 2021-2022. Source: https://www.crrc.am/wp-content/uploads/2022/06/%D4%B2%D5%A1%D6%80%D5%B8%D5%B4%D5%B3%A5%D5%BF%D6%80-2021_pptx_Final_13.06.22-2.pdf

Armenia⁹⁸. Freedom House's 2022 report notes⁹⁹ that civil society groups in Armenia were able to prevent a bill¹⁰⁰ put forward by the ruling party that would have brought the Office of the Human Rights Defender under government control. One of the important achievements for the civil society was the creation of the Extractive Industries Transparency Initiative (EITI), where a group of non-governmental organizations work.¹⁰¹ All this proves that, despite certain problems, the CSO sector in Armenia still has a certain potential for resistance.

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In fact, the indicator of civic activity (let's call it that way) has changed a lot in Armenia. It has been seriously improved because we would have had a hard time imagining this years ago, before Trchkan [referring to the activists' struggle for the Waterfall]. The same for electric Yerevan, and many other activities, all contributed to the citizens' activeness. And when they become active, shows activity, they really understand from where and what they can demand. Citizens already start to cooperate with human rights defenders, the level of their legal awareness is starting to increase, ... and some demands are coming to the fore.

Participant of discussion with journalist-experts

In the list of the civil society institutions, various business-related incorporations (associations, unions) have a slightly different status, which are often identified with the business sector due to their interests, and perhaps also certain practices of activity. According to the observation of some experts, most of them are fictitious structures, unconditional approvers of decisions of various departments, and there is a need to "clear the field". According to some of the experts, they are not sufficiently developed to respond to the participatory processes initiated by state agencies.

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...I proposed it in the government. I said: ...if you want improvements, this field should be cleared. They [unions] have to be re-registered, and certain criteria have to be set in which you can be re-registered. ...Your [union's] financial sources should be transparent; your financial report should be transparent. Second, at least 50 percent of your income should be your membership fees. ...The membership fee function is an important element. There should be demands on management, changes. That structure should represent someone. It should be clearly understood from the name, who you represent. It can't be... Association of SMM. It means presence of 8000 people in Armenia. How many people do you have registered with you? The state, for its part, will not have a similar counterpart, because if the counterpart is something like that, an uncertain animal, it is very good for the minister to say that we created a public council where we discussed such things, the law and 6 people are represented in that public council, who have nothing to do with business interests, investors' interests...

Analyst-expert

⁹⁸ Pashinyan will discuss with the representatives of "Ellard" the conclusion of the examination on Amulsar, Narine Ghalechyan. Source: <https://www.azatutyun.am/a/30125346.html>

⁹⁹ Armenia has taken steps to strengthen democracy, but it is still not a democratic state, Freedom House, Anush Mkrtchyan. Source: <https://www.azatutyun.am/a/31813865.html>

¹⁰⁰ Tatoyan considers the project that allows to reduce the annual budget of HRD to be discriminatory, Marine Khachatryan. Source: <https://www.azatutyun.am/a/31149326.html>

¹⁰¹ EITI. Source: <https://www.gov.am/am/eiti/>, <https://www.eiti.am/hy/%D5%AB%D5%B6%D5%B9-%D5%A7-%D5%A1%D5%B3%D5%A9%D5%B6-%D5%B6>

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... The privileges and formats given to the association should be fixed at the level of the law. In other words, the following should be approximate: the association that has at least one member and one fee can be called a business association. ...On the basis of the vote of all members of the association, he is obliged to accept a minister, a deputy minister, at least a minister and a deputy minister. At a higher level, the Deputy Prime Minister, at such intervals, to listen to the issues raised by them. And it is necessary to put an end to that practice, that is, for someone to call and say: let's meet, talk, understand what problems we have. If these three are together, I think it will turn out to be a fairly normal working system.

Representative-expert of international organization

Referring to the key importance of the role of foreign investments in the general conversation about the country's development prospects and the role of the mass media in it, it should be noted that the latter rarely address issues related to investments. In online videos, for example, only one public discussion on foreign investment was found.¹⁰² Most of the videos are announcements or announcements about big investments. Unique media outlets that regularly address various aspects related to foreign investment are Hetq.am and Civilnet.am.

2.8. SOCIO-POLITICAL FACTORS AFFECTING THE INVESTMENT ENVIRONMENT

Most of the respondents notice that the predominance of Russian organizations in the list foreign investors is due to the geopolitical factor, the political influence of the Russian Federation on Armenia. This is often the reason of inconvenience while distinguishing the economic policy from the political factor. The respondents refer to the example when the activities of Lydian Armenia, which are more compliant with the requirements of the Environmental Impact Assessment (EIA) were suspended, while the mines under the management of Russian organizations, which are less compliant with these requirements continue to be exploited. Some of the respondents attribute the number of Russian investments to the inertia from the Soviet years. Some also believe that the 60 percent increase in the investments of Russian organizations is due to Armenia's accession to the EAEU in 2015. Judging by these observations, this influence has increased especially after the defeat in the Artsakh war, therefore, a more favorable situation has been formed for the penetration of new corrosive investments.

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The advantage was always given to the Russian side. Maybe the comparison is wrong, but how is it that Amulsar is not exploited, but Zangezur continues to be? Because investments are different. ...Russian capital has always had an influence here. How is it that there are always Russians in such fruitful, high-income areas as mining, gold, copper, etc... It is difficult to separate investments from politics.

Participant of discussion with journalist-experts

¹⁰² Civic discussion. Economic development. Investments. Source: <https://www.youtube.com/watch?v=ozca2ix6oho>



The decrease in capital flows from Western countries is due to the problem of [20]15, [entering] EAEU... We were dragged here.

Participant of discussion with journalist-experts

2.9. EXTRAORDINARY FACTORS AFFECTING THE INVESTMENT ENVIRONMENT

The continuous threat of having to engage in war and the border tensions are key factors adding up to the sense of uncertainty among many foreign investors, decreasing their willingness to invest. This is complemented by the rather narrow consumer market of Armenia and the limited transit routes for transportation, which are mainly consequences of constant state of conflict and tense relations with the neighboring countries (closed borders, high level of immigration¹⁰³)¹⁰⁴. This, considering that foreign investors are mostly “*prospecting macro*” and usually “*think long-term*”. The mentioned factors affect the number of people investing in Armenia and contribute to the incoming of corrosive capital in a non-competitive environment. The 2022 February war in Ukraine and the events that followed have posed more risks of corrosive capital inflows into Armenia, especially from the perspective of creating challenges for more competitive constructive capital inflows.

Particularly, one of the interviewed experts notes that such a risk arises due to the war in Ukraine and the sanctions against Russia, as Russia is involving economic institutions of Armenia in certain latent transactions, seeking to increase the volume of Russian capital in Armenia. In this situation, the actors participating in the economic and financial policy of RA are making certain efforts to resist the inflow of corrosive capital, also taking advantage of the situation of Western sanctions against Russia and Belarus. However, as presented in the previous sections, there are *institutional, legislative, and judicial* issues that make it difficult to confront corrosive capital:

¹⁰³ Russian Ministry of Internal Affairs; Source: <https://xn--b1aew.xn--p1ai/dejatelnost/statistics/migracionnaya/7/>

ArmStat; Source: https://armstat.am/file/article/migration_profile_am_2020.pdf

¹⁰⁴ Some experts note that regardless of the situation, the problem is to correctly assess the environment and create investment opportunities in the sectors of the economy that are less dependent on the described challenges. One of them calls all these “*just excuses*”, noting that even in the case of closed borders and a closed economy, a proactive policy can be pursued.

“... there are constant excuses that logistics is weak... Look, with Turkey, there is a closed border, isn't it, brokered trade, so to speak, and in the case of Iran? The trade with Iran is almost the same compared to the trade with Turkey. If we take, exclude the sector of energy carriers, net gas supply, ... the state does not implement a proactive policy of working with the markets... In other words, it is left to its own devices. businessmen are doing as much as they can, with the rest of the sectors, there is no policy in this case...”

Participant of FGD with analyst-experts

““

... Why, for example, [foreign investors] do not come to Armenia? It's not that our taxes are too high, or our investment environment is too bad, or, for example, the market is not that competitive. ...The uncertainty is very high in our country and it holds back investors. I mean both the political uncertainty and, for example, the war situation. ...Because investors usually think long term. If we add to that the frequent political changes in recent years, in that sense, it is a serious problem...

Expert-representative of state body

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We have the problem of Lars, export to foreign markets, we have closed borders. For now, we have a very conservative neighbor like Iran. We are unable to export many products to the Iranian market itself. We don't have a railroad to the Middle East for cheap exports there. I mean, there are a lot of problems... The investor finds there is no need to suffer so much for this country, and considers looking at the next country, for example, I don't know, Moldova, for example, Georgia.

Representative-expert of international organization

2.10. OTHER ENVIRONMENTS HINDERING THE OPPORTUNITY FOR CONSTRUCTIVE INVESTMENT

During focus group discussions, expert and key-informant interviews, many other factors were mentioned affecting favorable environment for constructive or corrosive investment flow. One group of those factors refers to the economic status of RA and the publication of economic capabilities. In the first case, the transitional nature of our economy can be an obstacle for constructive capital. One of the experts notice that in 2008, after the great inflation, capital inflows changed their direction, flowing mainly to developed countries instead of developing ones. The high level of interest rates is an additional incentive for investments in RA. According to another expert, the absence of issued shares is an important gap for the investment environment that could make it more attractive. Various experts also mentioned the de facto "absence" of the stock exchange.

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We have the problem of Lars, export to foreign markets, we have closed borders. For now, we have a very conservative neighbor like Iran. We are unable to export many products to the Iranian market itself. We don't have a railroad to the Middle East for cheap exports there. I mean, there are a lot of problems... The investor finds there is no need to suffer so much for this country, and considers looking at the next country, for example, I don't know, Moldova, for example, Georgia.

Representative-expert of international organization

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...Usually, investments are made with profitability in investor's mind. The profit mostly depends on the interest rate... If someone decides to invest his dollars in Armenia, it will be much more profitable than, for example in America. But along with that, there are premium risks, which should satisfy them. ... So, we are a transition economy, we are an emerging market, aren't we... This market implies certain risks; political, economic. ... Now how does an investor choose a country? He can make two types of contributions; ones who are more up to risk and, ones who don't want to take it... Those people who are up to risk usually make their investments, they also have investments in the so-called emerging market... And the most important thing for them is the so-called premium risk.

Representative of banking sector

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... If the investor is there, but the investment tool is not there... For example, thousands of people say, "OK, let's come, and buy a share", but there is no issuer of that share. That is the second group of problems. And the third group is infrastructure. If both are there, and there is no stock exchange, means that there is no platform, or the platform is not integrated, or good enough, or the management is not carried out well, etc.

Participant of FGD with business community representatives

For attracting constructive capital, experts also emphasize the international publicity and proper provision of information on country's economic capabilities. According to one of them, the "weak market" is a cause of the weak propaganda:

““

...Generally, there are three types of markets: weak, medium, and strong. In the strong market basically all the financial information is public, so you don't have any surprises there. Armenia has a weak market, because here a huge part of the economy is still shadowy even when it should have been public.

Representative of banking sector

““

Once we had discussions with the Ministry of Economy, we also talked about how to encourage and support business... In fact, there is a need for support to raise the awareness within business. Not only business, but also public awareness... If we are talking about good management, which should lead to the improvement of the investment environment, important stakeholders, including the mass media, any citizen should have a demanding approach to the information disclosed by the organization and the behavior of the organization...

Analyst-expert

The third group of factors reducing the possibility of foreign constructive investments refers to the authority of policymaking and implementing institutions. According to experts, increasing the authority of policymaking and implementing institutions can contribute to reducing cases of bringing investments through personal connections and other means (political influence).

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It does not happen without personal acquaintance. The big investor does not come from nowhere, he comes to make an agreement with specific people. And the institutional structure must be clear, and must have a certain authorization, if it doesn't, the investor doesn't go beyond the conversations...

Participant of FGD with analyst-experts

The fourth group of factors reducing the possibility of foreign constructive investments draws attention to the level of public consciousness and cultural characteristics. Increasing the level of public consciousness and awareness is important in the context of ensuring the transparency of investment policy. The cultural specificity (in the conditions of weakly developed institutions) relates to our way of thinking, especially to our unfriendly disposition towards novelties and preferred traditional informal practices instead. This, in our opinion, is another factor hindering constructive investments.

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...In terms of investments' transparency, we have a problem with increasing public consciousness and awareness in general. Because every investment, especially a large-scale investment, is related to a wide range of public spheres. If those broad public circles are not interested in investments, no matter how much you change the law, no matter what decision you make, it will not be transparent, it will not be effective. For example, in some public discussions, we see most environmentalists on one side, and mining, or construction of buildings investors on the other side, but we see very few citizens...

Participant of discussion with journalist-experts

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[It's a matter of] mindset, culture ...We hardly accept new things. There are many Indians and Persians... For example, in the Arab Emirates, only one and a half million out of nine million are locals, because it is an international state. In other words, they have encouraged investments... and they have come to terms with the fact that there will be few locals. But we haven't come to terms with that. Maybe I personally won't accept so easily that, you know, 10 million people will live in Armenia tomorrow, out of which only 3 million are Armenians ...The same, perhaps, with business coming from abroad. When Carrefour entered Armenia, from the beginning I thought that Yerevan-City would be thrown out of the markets, but Carrefour could not enter Armenia.

Representative of banking sector

Experts also point out the insufficient professional abilities of the RA labor force and specialist personnel and the insufficiency of certain technological resources as a factor hindering constructive investments¹⁰⁵:

¹⁰⁵ Global competitiveness index, measuring institutional quality in 2019. according to the data, among 141 countries, Armenia takes the 62nd place; as for the quality of capabilities, it takes the 61st place. In addition, in comparison with 2017 year, Armenia institutionally has made progress, rising from 67th to 61st place, while for the same period, it experienced a decrease in capacity, falling from 53rd to 61st place. Source: [GCI 4.0: Pillar 1: Institutions - TCdata360 \(worldbank.org\)](https://data.worldbank.org/CI); [GCI 4.0: Pillar 6: Skills - TCdata360 \(worldbank.org\)](https://data.worldbank.org/CI)

“

...If we are talking about corporations, there should be separation of work with each element. In other words, if you want to bring someone, let's say, Samsung to produce a phone here, there is no one who will be able to deal with it, there is no knowledge. ...Working with everyone is years of work if you want to bring corporations. Your domestic market is not interesting for the corporation...

Participant of FGD with analyst-experts

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... In general, the field of corruption risk assessment in Armenia has lots of gaps, our universities do not train risk assessors, we do not have those “risk-experts” in practice, and this comes from education itself. In other words, from the point of view of that resource, the problem is much deeper than the structural issues...

Representative of state body

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For me, investment is not just financial investment. We must understand that the development of democratic tools or education or the capacity building of officials involved in public administration itself is a big investment too. Because if we don't have professional specialists, no matter how much the investments are, I think their effectiveness will be low... It is quite important for me, because after all, the user of finances is a person, and the investment in this or that field is now directed at the decision of the person. If we have literate specialists familiar with the challenges of today's world, we will also have properly applied investments...

Representative of state body

In some cases, and especially in the case of large investors, one of the most serious problems is the lack of appropriate infrastructure. As a result, to quickly organize the business, investors are forced to enter illegal transactions with the directors of the companies or to call the "top officials":

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...It was a very sad case when we have found an investor for a very large project in Dilijan, for a hotel complex with a capacity of up to 1000 people, but we were given an official reference from the Municipality of Dilijan, and then also from "Veolia Water", that we can't do it because Veolia don't have the possibilities of pressurized water there... If I came to your country to invest, you must [provide] those basic conditions; water, gas, electricity... infrastructure and all the paperwork related to it, construction permits, etc. [must be provided] ... The digitization process of construction permits has now started...For example, now, only 11 people are working in this direction in the relevant department of the Yerevan Municipality, so the capacity is not enough... Therefore, if we move in these directions, I think that the transformation from individual to institutional can be quite possible.

Analyst-expert

PART 3. CORROSIVE INVESTMENT “METASTASES” IN ARMENIA’S POLITICAL SYSTEM

In developing economies, investment capital can open up new ways of enhancing the growth and consolidation of democracy. Investment capital can also be used to undermine democracy and spread corruption in host countries, which is in the interest of authoritarian regimes participating in the investment transaction¹⁰⁶. As soon as corrosive capital enters in the country, it becomes a powerful tool for foreign political influence in the form of "sharp power". It assumes co-optation¹⁰⁷, manipulation, and censorship¹⁰⁸ of media, academic circles, cultural and political figures, and institutions.

Such co-optation of elites with the help of destructive capital is ultimately repurposing institutions run by subordinate leaders to serve the goals of authoritarian rule without the need to change the regime or appoint foreign personnel. Institutions of democratic governance themselves are turning into instruments of authoritarian intervention. With relatively "modest investments" often tied to benefits of key actors, and dubious loans pledged through local resources, authoritarian rule can penetrate the institutional fabric of democratic governance and consume it from the top down¹⁰⁹.

The above observations are not just judgments and are based on the real facts of the operation of corrosive investment capitals by a number of Chinese and Russian organizations in different countries. The description of the infamous investment experience of the Russian Gazprom organization¹¹⁰, especially in the Baltic states and Moldova, allows for re-thinking and evaluating the influence of that organization in the Republic of Armenia. In 1997, according to the investment agreements signed with Gazprom ("Haygazprom" ceased to exist and "HayRusGazard" was created instead), Gazprom did not buy assets, but received the right to manage the Armenian gas transportation system based on a promise to stabilize other supplies and investments. HayRusGazard's further process of *Russification* (increasing from the initial 45% share to 75% in 2008), with its latent and non-public aspects, arbitrary revisions, and violations of agreements, shows its true political-economic goals at the moments of certain

¹⁰⁶ Corrosive & Constructive Capital Initiative Flyer | Source: <https://www.cipe.org/newsroom/corrosive-constructive-capital-initiative-flyer/>

¹⁰⁷ The act or an instance of co-opting something: a taking over or appropriation of something for a new or different purpose.

¹⁰⁸ Deals in the Dark Russian Corrosive Capital in Latin America. By Ruslan Stefanov and Martin Vladimirov | Source: <https://www.ned.org/wp-content/uploads/2020/11/Deals-in-the-Dark-Russian-Corrosive-Capital-in-Latin-America-Stefanov-Vladimirov-Nov-2020.pdf>

¹⁰⁹ A New Invisible Hand: Authoritarian Corrosive Capital and the Repurposing of Democracy, by Martin Hála | Source: <https://www.cipe.org/resources/a-new-invisible-hand-authoritarian-corrosive-capital-and-the-repurposing-of-democracy/>

¹¹⁰ "Gas and Dirty Money. Russian Corrosive Capital in Latvia, by Evija Djatkoviča" (Source: <https://ceias.eu/gas-and-dirty-money%E2%80%8E-russian-corrosive-capital-in-latvia/>); "Russian Economic Footprint in Moldova, by Ion BUTMALAI, Tatiana LARIUSIN, Ion PREAȘCA" (Source: <https://corrosiveconstructivecapital.cipe.org/wp-content/uploads/2021/04/Russian-Economic-Footprint-in-Moldova-Study.pdf>)

important political events for RA (presidential or parliamentary elections)¹¹¹. Manifestations of Gazprom's influence on the political system of Armenia are also evident in the facts of appointing its own employees to the highest political positions.

The most striking is, perhaps, the biography of Karen Karapetyan, who reached the position of Mayor of Yerevan and later, Prime Minister of RA. Before being appointed as the Mayor of Yerevan in 2010, Karen Karapetyan headed the "HayRusGazard" organization for about 10 years. After leaving the post of mayor in 2011, he was appointed vice president of Gazprom Bank, and in 2012, general director of "Gazprom Mezhregiongaz" (which is a 100 percent subsidiary of Gazprom OJSC). In September 2016, by order of the President, K. Karapetyan was appointed the Prime Minister of RA. In 2017, during the Parliamentary elections, he led the campaign of the Republican Party, even though he was not included in the pre-election party list. In April 2018, K. Karapetyan was appointed the First Deputy Prime Minister of RA. He did not hide that he saw himself as the future Prime Minister of Armenia¹¹². The "Velvet Revolution", however, shifted that scenario. K. Karapetyan is currently holding the position of adviser in the board of directors of "Gazprombank"¹¹³.

Gazprom continues to remain as one of the main "investors" in RA and with previous inertia continues to interfere in the internal political processes of Armenia. During the 2021 snap elections of Parliament, reporters captured the collective presence of Gazprom Armenia workers at the campaign of the openly pro-Russian opposition¹¹⁴. Later, in 2021, media circulated materials about the same organization putting pressure on their employees to vote for R. Kocharyan¹¹⁵.

Another case was when journalists captured a poster reading "Freedom to President" hanging on the former MFA building belonging to the president of Corporation America E. Eurnekian. This occasion can be considered as an interference in the activities of the RA Court of Appeals, on the grounds that at the time of the poster's appearance the case of the former President R. Kocharyan's lawsuit was at the same Court¹¹⁶. Importantly, the Corporation America organization, with which the investment transaction was signed during Kocharyan's rule, is suspected of being involved in a number of corrupt transactions in RA¹¹⁷.

Despite the above evidence, some expert actors hardly see a connection between the quality of foreign investments and its impact on the democratic system. The reasoning

¹¹¹ "The history of Russification of "HayRusGazard"" | Source: <https://hetq.am/hy/article/31171>

¹¹² "Karen Karapetyan applied to leave the RPA"; Source: <https://www.azatutyun.am/a/29663321.html>

¹¹³ "It was not yesterday that I congratulated you on the first day by phone. Karen Karapetyan about the connection with Serzh Sargsyan and leaving the RPA" | Source: <https://www.armtimes.com/hy/article/187636>

¹¹⁴ "Gazprom employees came to Kocharyan's rally with a "collective"" | Source: <https://www.youtube.com/watch?v=xBe3ZyqogFU>

¹¹⁵ "Kocharyan used the old methods. The workers of Gazprom Armenia and HETC were instructed to vote in favor of the Armenia alliance. Details" | Source: <https://bit.ly/3RA5QF>

¹¹⁶ "Robbery's friends or Eurnekian's support for Kocharyan" | Source: <https://www.1in.am/2404709.html>

¹¹⁷ Ibid.; See, also "In Argentina, a search was conducted at the house and company of businessman Eduardo Eurnekian" | Source: <https://www.tert.am/am/news/2018/12/20/eurnekian/2878014>

behind that, on the one hand, is that these are viewed as different ideas, on the other hand, is the lack of large-scale foreign investment, and thirdly, is the market orientation of investors. In other words, it is considered that the investor invests money to make money and not to have political influence.

““

To be honest, I don't connect democracy and capital together. Because it seems to me that they are different ideas from each other, and democracy [has nothing to do with] capital inflow.

Representative of state body

““

As a rule, the investments that come directly to have an impact on the country are very few. No one will invest, say, 100 million in your country to influence you later. He invests money to make money. In other words, we have too few investments to have a state-directed impact. I don't remember anyone with that logic.

Analyst-expert

““

... There are large financial resources, where the financial sector has money in banks, they have capital, but on the other hand, our banking system does not engage in politics. We have no risk in this regard. If we don't engage in politics, it means that we don't direct our funds beyond our work to, I don't know, influence some processes there, etc... The Armenian banking system or banks are not involved in politics... Maybe they are in other countries, but we don't have that...

Business union representative

Nevertheless, another some of the respondents clearly see the possibility of the influence of the quality of investments on the democratic system, mentioning specific practices related to it in RA and drawing attention to possible solutions to weaken or exclude this influence.

““

...Certain Russian companies, Gazprom, for example, being a foreign investor, fully fall under the concept of corrosive capital. For years, we have witnessed how employees, thousands of employees, are used for political purposes during the elections, are involved in some political influences and processes. But on the other hand, for example, we have “Veolia Jur”, which is also entrusted to concession management, we do not have that influence. “Veolia Jur”, for example, was not involved in political processes.

Participant of FGD with analyst-experts

“

... Larger flows [of foreign capital] may turn into political capital and decisions will be dictated by it. The best example is the example of Azerbaijan. There, let's say, I don't know, British Petroleum has such a large share in their oil sector that any decision, if they want, can be passed both in the Parliament and in other places.

Expert-representative of state body

“

We don't have [regulations against disruptive investment], and most importantly, we don't understand that there should be...

Analyst-expert

From the perspective of the discussed, a remarkable observation expressed by one of the experts was that democracy can not only be a target for corruption, but can also be used as a vehicle to spread corrosive capital. As a foundation for this observation is mentioned the fact that there is a misconception among the Armenian public that democracy is only democratic elections. This ultimately reduces the interest and control over the actions of the authorities, which corrupt capital can take advantage of.

“

The biggest problem is that corrosive capital has a great opportunity to exploit democracy. ... Quite simply, the worst kind of corruption is the influence on the elections... When your democracy is not based on that system, but on a formal phenomenon, corrosive capital becomes of the biggest use ... Today Tashir and Armenian Rusgazprom, and perhaps also Veolia, can predetermine the effect of any fair choice. And in fact, that choice will be fair. And society itself is not so ready to see the connection between Zangezur's actions or Tashir's actions and elections... This is where the problem arises, that democracy becomes a tool... Corrosive capital is very easily able to ensure this, because let's turn off the light for two hours every day for a month, and you will gladly vote against a given mayor without understanding...

Analyst-expert

PART 4. INVESTMENT DEVELOPMENTS IN ARMENIA DUE TO ONGOING WAR IN UKRAINE

In 2022 On February 24, the Russian Federation started a war against Ukraine with the announcement of the "operation of demilitarization and denazification". Two days before the outbreak of the war, due to Russia's recognition of the self-proclaimed states of Donetsk and Lugansk, and due to unleashing a war, the USA, Japan and a number of Western European countries imposing sanctions against Russia and Belarus, which provides logistical support to Russia in the war. As a result of these sanctions, as well as becoming a war zone, many business establishments and private entrepreneurs in Ukraine, Belarus and Russia, in order to avoid the risk of closure, began to look for ways to transfer their businesses and funds to other countries, including to the Republic of Armenia. A dual situation was created for the RA, on the one hand, from the point of view of the possibility of attracting new foreign investments, and on the other hand, from the perspective of the threat of the penetration of corrosive capital.

It is difficult to get an idea of the actual number and trends of foreign business and investment inflows to Armenia during the past six months as a result of the aforementioned events, because of the lack of the official statistical public data. The latest data published by the RA Statistical Committee refers to 2022's first quarter. The data of the second quarter are still being processed and summarized and are not subject to publication. In such a situation, it remains to rely on the studies and reports of various independent research organizations and expert circles, as well as media publications.

From various studies and media publications, we learn that businesses and investment flows penetrate into RA mainly from Russia and Belarus and are directed mainly to IT, construction and clothing production sectors¹¹⁸. The experts and key-informants participating in the research testify it.

“

... Businesses coming from Russia are now trying very hard to invest here, just to avoid the sanctions... For example, even if they come here, they buy raw materials from Europe, bring them here, produce them, export them to Russia¹¹⁹. They tend to somehow bypass these barriers, although not all products are under sanctions as a result... In other words, if they have to come, import cloth from Italy, produce clothes here, take them to Russia, we will have to let such businesses work here, because it is not under sanctions. For example, IT businesses are coming. They are working with Europe, made projects from Russia for Europe or the West, and now from Armenia.

Representative of banking sector

¹¹⁸ Source: Expert interviews; Armstat.am/Foreign investments, <https://armstat.am/en/?nid=14>

¹¹⁹ The hypothesis of turning Armenia into a reexporting country seemingly finds support in a 2022 article published on The Moscow Times. See, "Armenian Trade With Russia Raises Re-Export Questions" | Source: <https://www.themoscowtimes.com/2022/08/31/armenian-trade-with-russia-raises-re-export-questions-a78692>

“

Since we decide the origin {issuing the certificate of origin}, now there is a lot of demand from different countries, mainly from Russia, to produce some things in Armenia and take them to other places and sell them. Now, first of all, it turns out that many businessmen come to us first to understand whether the Armenian product will be of Armenian origin or not...

Representative of state body

According to the Statistical Committee's data, in 2022 in February-March, about 150,000 people moved to Armenia from Russia alone. Shant TV, referring to the data provided by the Ministry of Economy and the State Register, reports that Russian citizens have opened around 1,200 organizations in Armenia during this period, and around 70,000 citizens have opened user accounts in various banks. According to the Deputy Minister of Economy, in 2022, some part of the 20,000 companies registered in the RA in February-August are from Russia. The Hetq Media factory's survey of 300 resettlers from Russia revealed that 8 percent of them moved to Armenia as a result of the relocation of their employer or because they saw an opportunity to open a private enterprise. According to another study conducted by Hetq, in 2022, in the months of January-May, about 679 million dollars were transferred to Armenia, the recipients of which are mostly Russian citizens who moved to Armenia. According to experts, a significant part of these sums is capital, which is transferred to Armenia to avoid American and European sanctions. The director of Arminfo news agency and businessman Emanuel Mkrtchyan explains the migration of businesses from Russia to Armenia and the cash flow situation with "a Quiet Harbor Effect". In other words, Armenia has become a country where and through which economic activity can be continued.

However, some experts are wary of calling the funds flowing into Armenia from countries subject to sanctions as investments, considering that they are just flows, and they have not heard of any serious investment.

“

I can't call them investments because I don't have statistics yet... There were more flows... First, there was a certain period, after which, when Russia was put under restrictions, it was simply impossible to withdraw those funds. Not to mention that the banks fell under the sanctions one by one. At the moment, I don't know of such an investment that would any change...

Representative of banking sector

“

If we look at all this from the perspective of investors, it is quite problematic for the safety of investments. And if there are certain positive changes in Armenia today, it is due to another war. ...Russian investments in Armenia are localized, that is, at a certain point, the Russians solve a problem by establishing organizations in Armenia, bringing their workforce to Armenia. ...And how far they will be established in Armenia, and how far we can evaluate their impact positively, at the moment I am afraid to give some estimates...

Representative of state body

The key-informants and experts participating in the interviews do not see the aforementioned investment flows as a positive phenomenon, to put it mildly. In the words of one of them, we are standing at the "gates of entry of corrosive capital" and it is necessary to take certain security measures. When talking about the measures implemented against the penetration of destructive capital (in this case, capital subject to sanctions), the respondents mention banks and banking organizations as the main controlling institutions. The representatives of the banks, for their part, talk about the more consistent and strict application of the existing mechanisms in the current situation, which, according to a number of experts, sometimes reaches the extreme.

“

We always look at the source of the money, regardless of this [sanctions]... It for money laundering, that is, we always have to know where the money came from and whether it has, I don't know, let's say, a terroristic purpose, or coming from offshore.

Representative of banking sector

“

...I see that the central bank regulates the flow of currency quite tightly. I see that the banks are quite responsible. Maybe there are places that they want to appear more Catholic than the Pope. I think that once in a while they even go too far... I want to make a small transfer, they never asked me, but they ask, for what purpose... But why do they go too far? because the central bank imposes such strict regulations.

Representative of state body

“

The Central Bank has given certain regulations in the sense that the vital interests must be in Armenia... In case of what criteria, we will serve these or that businesses, [the decision] was made by the banks' departments... There were even banks that tightened so much that almost no one went there. But I can say that the banks were probably the most cautious and set such criteria that they had to be very normal customers to come to a specific bank.

Representative of banking sector

Interviews with banking sector informants give the impression that the incentive to implement strict and consistent measures by banks is not the desire to reduce the possibility of penetration and operation of corrosive capital, but the concern of not falling under sanctions.

“

...Any money that comes to the Republic of Armenia must be international, within the framework of sanctions by Western countries, permissible sanctions, within the framework of permissible sanctions established by the Russian Republic, because there are sanctions from both sides... In other words, the entry of capital from clean, open sources, any capital, is desirable, I think.

Business union representative

““

If we help to circumvent the sanctions, we may find ourselves under sanctions, both the country and the banks. And because of one bank, all banks may come under sanctions...

Representative of banking sector

Despite the tightened security measures, some respondents still point to several possible tactics or loopholes for the penetration of sanctioned streams:

““

There are cases, I know, that exporters or importers take certificates about the country of origin. ...Services, imagine that it is more difficult to control, because it is possible for an Armenian organization to buy a service from a Russian organization and sell it to some European organization. It could have been like this before, now it can, it has increased. And who will be able to determine that the key organization is fictitious or not fictitious, if it has a director, the director signed a contract with a Russian organization, buys and sells services to a German organization?

Representative of state body

““

[Offshore money] doesn't have to come through a bank, someone can take their money from offshore in cash and come to Armenia. ...Perhaps, it is necessary to try to understand where this person got so much cash, just like at the airport. Or it could happen that, I don't know, some organizations are formed, and there are so many small amounts that it is not noticeable to the eye...

Representative of banking sector

Individual experts who participated in the interviews emphasize especially the quick and adequate response of the RA Ministry of Economy in the current situation. In particular, the opening of information and quick response platforms on various online platforms is mentioned.

““

...For example, the Ministry of Economy quickly responded to the Russian inflow of people and possible capital... They created some platforms, appointed someone to the ministry who deals with these issues... That informational support that the ministry did even at that beginning, those active actions... it was a very big step, it was a necessary step... The most primitive step, right? The Ministry of Economy was very active in Telegram channels with those IT people potentially arriving in Armenia. Several times, even in that Telegram environment, the minister answered the questions of the Russians who planned to come to Armenia. ... The informational support that the ministry was providing, in my opinion, is very important. Now it could be done more systematically.

Representative-expert of state body

CONCLUSION

The final goal of our study is to identify the favorable and hindering factors for the penetration and development of constructive capital in Armenia, the factors are in a certain sense the impulses for further actions. Hence, based on the results of the conducted research, we have distinguished two groups of impulses, which we tentatively considered *positive* and *negative*:

Positive impulses

- ☑ Even without the formulation of the concept of corrosive and constructive capital, there is a certain inclination and tendency from RA authorities to ensure equal competitive conditions for foreign investments, decentralize the market, and make investors' interests more protected. This is evidenced by the newly developed Investment Concept¹²⁰.
- ☑ Implementation of steps to improve the business environment, such as a number of legislative changes (including simplification of the business registration process)¹²¹.
- ☑ The establishment of certain institutions: the Investment Support Center-Enterprise Armenia¹²² and the Corruption Prevention Commission.
- ☑ The relatively well-established banking system, which, according to the experts/key informants participating in the research, quite successfully resisted the attempts of the possible penetration of corrosive capital during the war in Ukraine.
- ☑ Even though Armenia ranks among the hybrid democratic countries, in recent years certain trends of improvement of the democratic political system have been noticeable, which has been recorded by various international institutions, as well as in various indexes.
- ☑ According to various international researches and observations of CSO representatives, certain trends of institutional and professional establishment have been registered in the civil society.
- ☑ Support of international organizations for development the investment concept, reforming the legislation and improvement of investment environment.

Negative impulses

- ☒ The economic policy, including the investment policy implemented in RA does not directly derive from the concepts and depends more on the priorities highlighted by the authorities of the day. The concept established in 2015 had

¹²⁰ International Development Group LLC “Invest Reform Roadmap for Armenia”, 2022. Source: <https://www.mineconomy.am/media/20003/Investment%20Reform%20Roadmap%20for%20Armenia.pdf>

¹²¹ International Development Group LLC “Invest Reform Roadmap for Armenia”, 2022. Source: <https://www.mineconomy.am/media/20003/Investment%20Reform%20Roadmap%20for%20Armenia.pdf>

¹²² Enterprise Armenia, “Our mission”. Source: <https://enterprisearmenia.am/en>

such a formal role, and according to most of the interviewed experts and key informants, the newly developed legal system may also have such a fate. The unfamiliarity of a significant part of the respondents about the Investment Concepts and its foundations also speaks of the possibility of such a perspective.

- ☒ The selective-discriminatory nature of certain state institutions originally established to ensure equal competitive conditions. The respondents specifically target the selective activities of the RA State Commission for the Protection of Economic Competition (SCPEC), the fact that it is a state structure, which reduces the possibility of the impartial functioning. The respondents also draw attention to the problems of competitiveness that have arisen in the market environment as a result of the efforts of the RA government to provide special support to investors.
- ☒ The principle of equal competition is often violated due to the fact that the relevant structures turn a blind eye to the non-transparent and non-accountable practices of some organizations, as a result of which organizations or individuals who adopt transparent and accountable practices end up in less competitive positions. The principle of equal competition is also violated as a result of granting privileges to some organizations and providing subsidies from the budget.
- ☒ The lack of a clear distribution of functions and the lack of mechanisms for cooperation and information exchange between different structures is a subject of special attention.
- ☒ There is also a lack of clarity in the regulations for registering an investment organization or a natural person, which often becomes a reason for bureaucratic hassles, thus this creates a need of initiating informal steps to speed up the processes.
- ☒ One of the issues worthy of attention is the lack of transparency in the procurement process and the lack of enforcement mechanisms for public accountability.
- ☒ Another noteworthy problem is the lack of effective mechanisms for discussion of the state draft decisions on the investment environment with stakeholders.
- ☒ Respondents also mention the lack of qualified specialists in the state structures as one of the important factors hindering foreign investments.
- ☒ The inadequate professional quality of the labor force required for various prospective sectors in RA was mentioned as one of the factors hindering the penetration of effective investments.
- ☒ An important factor hindering the penetration of effective and innovative investments is the lack of basic technological capabilities, especially in the manufacturing sector.

- ☒ Among the obstacles are also the lack or inadequacy of supporting infrastructure (drinking water supply, roads, etc.) designed to provide a favorable investment environment.
- ☒ The problems raised by the civil society are mainly related to the formal existence of most of the business unions. According to the experts'/key informants' observations, these organizations have a passive role in terms of transferring the existing problems in the business communities to the decision making structures in an institutional way, as well as publishing them. The communication of these associations with mass media is almost absent.
- ☒ Unfriendly attitude towards changes among the decision making institutions and, in general, in the broad circles of the public is also a factor hindering the penetration of constructive capital, which makes it difficult and delays the quick implementation of reforms.
- ☒ In focus group discussions and interviews with experts and key informants, the most frequently raised concerns regarding attracting foreign investment are related to the functioning of the judicial system. Moreover, not the fairness of the judgments, but the delay of court cases is mostly pointed out.
- ☒ In terms of the political environment, the limited perception of democracy among the public, in particular, the perception of democracy mainly as a tool of holding elections based on democratic principles is a negative influence.
- ☒ In terms of the political environment, internal political instability, in particular, the emergency election is also considered a negative impulse. These and other mentioned factors not only reduce the desire of foreign long-term investments in RA, but also "free up" areas for corrosive investments.
- ☒ Focus group discussions, interviews with key informants and industry experts, as well as public statements by some government officials testify to the need for "any investment" and the dominant position of "no bad investments". That problematic position is often justified by the following factors:
 - The hostile relations of the two neighboring countries with the RA, frequent military incidents on the border, as well as the limited possibilities of the transit roads necessary for cargo transportation reduce the attractiveness of the RA for constructive investments and make it a risky environment.
 - RA is actually located in the zone of geopolitical influence of the RF, the CIS (*Commonwealth of Independent States*), and since 2015 it is also a member of the Eurasian Economic Union created under the leadership of the RF, which causes certain market and also political difficulties for investors from countries that are not members of these structures.
 - Due to the above-mentioned factors, in a number of economic sectors (mining, utilities, telecommunications), established organizations

operating under monopolistic or concession management contracts, which allow various arbitrariness and violations in terms of prices and provision of services, as the control mechanisms are not effective.

- In the framework of the investigated impulses, negative impulses of key importance are the ruling quantitative perceptions about the quality of capital and the ignorance about the concepts of constructive and corrosive capital.

RECOMMENDATIONS

Despite the multitude of impulses listed in the conclusions, our content analysis, based on field and documentary studies, allows us to believe that the key factors that hinders the penetration of constructive capital and enables the penetration of corrosive capital is our existing ideas about the quality of capital. As we have mentioned several times, they have mainly a quantitative description (increase in productivity, creation of added value, renewal of technologies, investments forming production value chains, etc.). Basically, even the effectiveness of the quantitative descriptions is considered under the quality of capital only in the context of the economy. Outside the economic context, the effectiveness of foreign capital is at best associated with the problems of overcoming poverty, increasing the level of welfare, and ensuring external security (strengthening borders, modernization of the army and military equipment). With public administration and other spheres of public life, the quality of capital is not usually implored. Moreover, the inverse connection and influence of the aforementioned areas with the quality of capital is not realized. This is where the unviability of traditional ideas about the quality of capital is noticeable. This is confirmed in ineffective policy practices that are considered a direct result of these ideas. It is not possible to ensure continuous growth of productivity, investments forming value chains, periodic increase of added value, methodical renewal of technologies, if the actors developing, implementing, controlling, and supporting economic policy do not see the larger context of capital operation.

In contrast to the traditional quantitative understanding of the quality of capital, the reference considering capital from corrosive and constructive perspectives takes into account the broader context and effects of capital's operation, on the one hand, and the inverse effects of individual spheres (political, judicial, civil, etc.) that include the broader context, on the other. The verbs "destroy", and "build" refer not only to economic structures. Studies on the penetration and expansion of corrosive capital carried out in a number of countries clearly show how corrosive capital affects not only economic, but also political, social, academic and various systems and communication structures, and how the latter inversely and with a double effect affect the economic system.

Some of the negative impulses mentioned in the conclusions come from traditional perceptions about the quality of capital. Among those impulses, perhaps the most dangerous is the "any investment is necessary" thinking, which opens a free field for the infiltration of capital of any quality. But which is no less important, this traditional perception makes coping with all other negative impulses unimportant or secondary; gaps in legal regulations, low institutional development, low level of transparency and accountability, over-concentration of the market, unequal competitive conditions. One of its direct indicators is almost zero awareness that most of the expert and key informants have about the basics of the Investment concept. One of its indicators is the complexity and ambiguity of the laws regulating the investment field. An important indicator to consider is that economic policy actors often do not effectively and consistently perform their functions defined by law. Finally, the vulnerability of the

Armenian economic system to the effects of emergency situations and geopolitical factors is an indicator and result of the traditional perception of capital.

It does not follow, of course, that quantitative notions of capital quality are completely useless, that increasing productivity, increasing added value, upgrading technology, or investing in labor quality, corporate forms of governance, or direct investment promotion cannot be beneficial economically. The problem is that when they are declared priorities and the main goal, other aspects are often not taken into account when it comes to the means of achieving them. The public participation theses of transparency, accountability, and other ideas become less important or unimportant. And it opens a free field for the penetration of corrosive capital, which brings privileges and unequal competition, unaccountability and opacity, lack of supporting infrastructure, bribery of government and political society representatives, stagnation (co-optation) of the state and civil institutions, interference in the country's internal and external politics. From a certain moment and retroactively, the listed consequences themselves become the reason for the devaluation (degradation) of quantitative ideas about the quality of capital. In other words, the stated priorities and goals gradually become difficult to implement, fragmentary and ultimately unattainable due to the above. The Armenian public has witnessed all this in the past decades, and the vicious practices described by the participants of our research are the manifestations (representations) of quantitative ideas about the quality of capital.

Therefore, the primary solution for investment policy reform seems us to be a qualitative change in the perception of capital quality, and the first group of proposals presented below refers to awareness measures on the concept of corrosive and constructive capital, both for narrow professional and general public circles. Other groups of proposals are derived from the perspective of corrosive-constructive capitals.

1. AWARENESS AND ADVOCACY

- ❖ Using the most diverse platforms and formats of awareness (virtual and face-to-face round table discussions, lectures, seminars, informative videos, etc.), make the concept of constructive capital, its most important aspects, and advantages, perceivable to the general public, official and professional circles.

2. INVESTMENT POLICY FRAMEWORK AND POLICY

- ❖ As a key goal for an effective investment policy, formulate ensuring and encouraging the compliance of quality standards of invested capital (constructive capital) and environments conducive to their operation.
- ❖ In order to increase the possibility of implementation of the investment concept, ensure the participation of business structures and individuals, representatives of civil society in the various stages of the investment policy (development,

implementation, control), publicize reports on various stages of investment policy and their publication.

- ❖ Taking into account the observations and suggestions of a wide range of experts and interested citizens, develop mechanisms to present investment information and statistics in a more accessible, complete and periodic manner.
- ❖ Taking into account the observations and suggestions of a wide range of experts and interested citizens, develop mechanisms to make the current activities of investors more transparent and accessible online. In this case, transparency is especially related to the pricing policies of various investing organizations and service providers.
- ❖ Provide potential investors with the necessary detailed information on the RA investment environment on relevant online platforms, starting with the concept, norms and decisions, ending with information about land and electricity prices.
- ❖ Provide simplified online registration of investors, taking into account constructive capital criteria.
- ❖ Pursue the implementation of the obligations assumed by the Comprehensive and Enhanced Partnership Agreement (CEPA) signed with the European Union, take more consistent steps to make the Armenian corporate governance environment in line with the principles of the Organization for Economic Cooperation and Development (OECD).
- ❖ Disseminate and promote constructive investment success stories and practices through media with a wide audience of viewers and readers.
- ❖ Encourage and pursue visibility studies and publicize their results.

3. LEGISLATIVE ENVIRONMENT AND REGULATIONS

- ❖ Develop specific plans to review the conditions of monopoly and trust management, including setting clear conditions for their directors.
- ❖ Ensure language accessibility of laws and decisions for local and foreign investors. One of the options offered by experts is to approximate international concepts and formulations, as well as legal provisions. In this regard, the application of certain contractual standards (such as Convertible Notes, Safe, etc.) is also important, which can encourage IT companies.
- ❖ For the effective development of legislative initiatives and projects, do not be satisfied only with informing about them on special websites (e-draft, etc.), but at least inform the representatives of the expert community and state institutions with addressed letters demanding a response. It is also necessary to develop certain scientific criteria identifying the importance of received opinions and not be satisfied with counting the number of so-called "for" and "against" opinions.

4. ECONOMIC POLICY DEVELOPING, IMPLEMENTING, MONITORING INSTITUTIONS

- ❖ There is a need to clarify the functions of investment policymaking, implementing and controlling institutions. An optimal option can be considered to concentrate all functions related to the registration of investing organizations in the hands of one institution. Similarly, for example, the responsibility for procurement violations can be placed under the responsibility of the Ministry of Finance, which makes the same policy.
- ❖ Ensure closer cooperation between investment policymaking, implementing and controlling institutions, ensure the intensity of information exchange between respective bodies.
- ❖ Take steps to ensure quality personnel in investment policy making, implementing, and monitoring institutions by applying rotation mechanisms based on knowledge and experience.
- ❖ Promote the participation of expert circles for the effective operation of economic policymaking, implementing and controlling structures, by increasing transparency and accountability, by publicizing the activities of these structures.
- ❖ Take steps in the direction of increasing the independence, transparency and accountability of the structures that control the implementation of the investment policy, in particular, the State Investment Fund; if necessary, by amending the laws governing the activity.
- ❖ Within the economic policymaking, implementing and controlling structures, form specialist-analyst positions, which will be engaged in writing and publishing periodic analyzes regarding their functions related to investments.

5. MARKET AND COMPETITION

- ❖ Reject the political tactic of granting privileges to different investors on any justification (sector priorities, large investments, ethnic origin, allied country, etc.). According to many investors, not only local, but also foreign, this tactic causes unequal competitive conditions, contributes to circumventing the legal norms regulating the economic field and justifying them.⁴

6. JUDICIARY

- ❖ Most disputes involving contracts, property ownership or commercial matters are settled by the parties in courts of general jurisdiction. Alternative dispute resolution mechanisms do not exist. In addition to the general demand to increase trust in the judicial system, the experts mentioned a number of mechanisms for solving problems related to specific investors. The establishment of courts exclusively dealing with economic cases, increasing the efficiency of the role of arbitration courts, the establishment of the "closer" institute on the example of the USA, or the establishment of the "Ministry of Happiness" on the

example of Dubai and the Arab Emirates. There is also a need to digitize certain processes to lighten the workload of the courts.

7. POLITICAL SYSTEM

- ❖ Develop mechanisms in order to exclude the intervention of investing organizations in the country's internal political life and foreign relations.
- ❖ To present the content and various aspects of the democratic system, the close connection between democracy and market relations to the broad circles of the public with different platforms of information and different formats of information.
- ❖ Restore and revitalize in 2020, the broken communication and contacts between various representatives of the government and the public due to Covid-19 and the 44-day war. In order to promote it, the adoption of the "article on lobbying" could be useful, which will oblige the deputies and representatives of various branches of government to publish information about their meetings and discussions with citizens and representatives of civil society at certain intervals during the week.
- ❖ Initiate and facilitate parliamentary hearings and discussions with investors on investment topics.

8. CIVIL SOCIETY: BUSINESS UNIONS, ASSOCIATIONS, INTERNATIONAL ORGANIZATIONS, MEDIA

- ❖ Ensure the practical participation of representatives of political society in various stages of investment policy development, implementation, and control.
- ❖ Promote the activity of civil institutes interested in investment policy in particular by means of various incentives (delegation of research, lectures, etc.).
- ❖ Revise trade union legislation to promote their true mission and activism.
- ❖ Encourage the publication and dissemination of journalistic materials on foreign investment topics.

9. INFRASTRUCTURES

- ❖ To prioritize the construction and improvement of roads (highways) in old and new directions important for transportation. Develop optimal ways of carrying out cargo transportation by air.
- ❖ Consider the possibility of cooperation with companies providing transit services with smaller capacities.
- ❖ Promote research and initiatives in the direction of alternative energy (biomethane, solar and wind energy, etc.).
- ❖ Accelerate and complete the overhaul of water supply and irrigation networks.

10. EMERGENCY SITUATIONS

- ❖ Develop mechanisms that consider and mitigate investors' risks in emergency situations (war, closure of transit routes, lockdown, etc.) in order to increase the protection of investors' interests.

ANNEX 1. RESEARCH STAKEHOLDERS' MAPPING

	Name of the institution/expert	Email of the institution/expert
Policy makers and implementers	Central bank of Armenia	secretariat@cba.am
	Ministry of Economy	secretariat@mineconomy.am
	State Commission for the Protection of Economic Competition	info@competition.am
	Chamber of Commerce and Industry of the RA	info@armcci.am
	State Revenue Committee of RA	secretariat@petekamutner.am
	Ministry of Finance	secretariat@minfin.am
	Standing Committee on Economic Affairs (National Assembly)	econom@parliament.am
	Security Council Office of Armenia	seco@gov.am
	National Security Service of the RA: Economic Security and Countering Corruption body	ta@sns.am
	Corruption Prevention Commission of RA	info@cpcarmenia.am,
	Enterprise Armenia	info@isc.am, levon.ohanesyan@isc.am
	Armenian Card, Card Payment System CJSC	info@arca.am
	Armenia Securities Exchange	info@amx.am
	Ministry of High-Tech Industry	info@hti.am
	Public Services Regulatory Commission of the RA	psrcinfo@psrc.am
Private sector beneficiaries	Ardshin Bank	office@ardshinbank.am
	VTB Bank	headoffice@vtb.am
	ID Bank	info@idbank.am
	Evoca Bank	hello@evocabank.am
	Unibank Bank	unibank@unibank.am
	Ameria Bank	office@ameriabank.am
	ACBA Bank	acba@acba.am

HSBC Bank	hsbc.armenia@hsbc.com
Ineco Bank	inecobank@inecobank.am
ABB Bank	info@armbusinessbank.am
AEB Bank	bank@aeb.am
PWC Armenia	office.yerevan@am.pwc.com
KPMG Armenia	general@kpmg.co.am
Deloitte Armenia	amdeloitte@deloitte.am
Ernst and Young	yerevan@am.ey.com
RAMADA hotel	info@ramada.am
Armbrok	kayfajyan@armenbrok.com
Rosgosstrakh	kananyan@rgs.am
Redbridge	hayk.baghdasaryan@redbridge.am
Incore	mikhail.broyan@incore.am
Philip Morris	viktorija.poghosyan@pmi.com
Coca-Cola	elina.markaryan@cchellenic.com
QSI	socialmedia@qsi.org
Marriott Hotel	armenia.marriott@marriott.com
Union of banks of Armenia	uba@uba.am
Mantashov Entrepreneurs Union	info@mantashyants.am
Union of Young Entrepreneurs of Armenia	uybarmania@gmail.com
Mijazgain Gortsarar Kaperi Ajaktsman Miutyun NGO	idrsCouncil@gmail.com
The Republican Union of Employers of Armenia (RUEA)	info@employers.am
"European Business Association" NGO	info@eba.am
Transparency International Armenia	info@transparency.am

Civil society activity implementation institutions

	"Alternative" Research Center	tatoulm@gmail.com
	"Finarm" Financial Market Members Association	info@finarm.am
	"Armenian National Interests Fund" (ANIF)	info@anif.am
	Corporate Governance Center Armenia	nmelikyan@corpgov.am
International institutions	International Finance Corporation, IFC	anazaryan@ifc.org
	USAID	-
	EBRD	-
Experts	Edward Sandoyan	edwardsandoyan@gmail.com
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	Arshaluys Mghdesyan	ashmxdesyanog@gmail.com
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	Sara Khojoyan	-
	Sargis Harutyunyan	-
	Karen Harutyunyan	-
	Emanuel Mkrtchyan	-
	Hayarpi Baghdasaryan	-

ANNEX 2. INTERVIEW GUIDE: COMPREHENSIVE QUESTIONS

Hello! Welcome to our group discussion! My name is _____. Thank you so much for taking the time to participate in our discussion! Your feedback is very valuable to us. I represent the Caucasian Research Resource Center-Armenia (CRRC-Armenia) Foundation, which is an independent research organization. You can become familiar with our organization at www.crrc.am website.

We conduct research in collaboration with the Center for International Private Enterprise (CIPE) under the “Public Sector Management Research and Advocacy” program.

Today's discussion is dedicated to the opportunities and systemic challenges of investment inflow in Armenia. The purpose of the research is to reveal the nature of investments necessary for the recovery of Armenian economy. The research findings will further serve to raise the awareness about corrosive and constructive capital within the business community and other local stakeholders.

I would like to inform you that our discussion will be recorded upon your permission. This allows us to receive a text transcript, in order to collect important observations properly. The recording will be used only for internal reports and will not be provided to the third party. The results of the interview will be summarized in a generalized form, without using anyone's name. The interview will last about 1 hour.

Before starting the interview, I would like you to agree (in written form or orally in the case of a Zoom discussion) that you are aware of the confidentiality of the interview and that any information that may disclose your identity is not subject to be publication.

Do you have any questions before we jump into the discussion?

Introduction

- Could you please introduce yourselves - your field of activity?
- What position do you hold?

Section 1: Overview of foreign investment policy in the RA

1. In general, how would you characterize the current state investment policy in Armenia - especially in terms of foreign investments?
 - 1.1. How would you describe investment policy related to foreign investments in Armenia?
 - 1.2. What, do you think, are the main characteristics?
 - 1.3. Why do you point out those particular characteristics?

To the moderator! **If any specifications are presented in the answer, please clarify!**

- 1.3.1. What criteria do you base these specifications on?

To the moderator! **If the informant presents their approaches based on official standards, then clarify their attitude about those standards.**

2. Are you aware, does Armenia has a certain concept of investment policy?

If yes:

- 2.1. What theses is the policy built on?

2.2. According to you, how successful is the policy implementation?

If not:

- 2.3. What is the reason for this?
- 2.4. What do you think are the hindering factors?
- 3. In your opinion, what countries are the main investors in Armenia?
 - 3.1. What is the reason for this?
 - 3.2. To what extent do official statistics reflect reality?
 - 3.2.1. How do you feel about the facts mentioned by you?
- 4. What investments do we need? Why?
- 5. What investments do we not need? Why?
- 6. What should the investment policy be in Armenia? Why?

Section 2: Transparency of the investment policy and participation of various institutions in the development and implementation of the investment policy

- 7. How transparent do you think is the investment policy in Armenia? Why?
- 8. In general, to what extent should the investment policy be transparent? Why?
 - 8.1. Why is transparency important?
 - 8.2. How can transparency be effectively ensured?
- 9. What institutions do you think are actually responsible for *developing investment policy* in Armenia?
 - 9.1. What are the challenges to make the policy development process more effective and targeted?
 - 9.2. What institutions do you think are actually responsible for *the implementation of investment policy* in Armenia?
 - 9.3. What institutions are actually involved in investment policy development processes in Armenia?
 - 9.3.1. In your opinion, what are the challenges in ensuring the participation of various interested institutions in policy development and implementation processes?
- 10. What institutions do you think should be responsible for developing investment policy in Armenia?
 - 10.1. What institutions do you think should be responsible for the implementation of investment policy in Armenia?
 - 10.2. And what institutions do you think should be involved in investment policy development processes?
- 11. In your opinion, to what extent is the participation of various non-governmental organizations considered in the investment policy development and decision-making processes?
 - 11.1. E.g., to what extent are the opinions and suggestions of businessmen, lawyers, and other experts considered?
 - 11.2. *If yes:* In what aspects and at what stages of policy development and implementation are they considered?
 - 11.3. *If not:* What is the reason for this?
 - 11.4. How do you identify if the opinions are considered or not?
 - 11.4.1. What indicators do you rely on?
 - 11.5. Is the participation of various non-state entities in the process of implementing the investment policy important?

11.5.1. *If not, why?*

11.5.2. *If yes, why?*

11.5.2.1. What institutions can be participants and what are the mechanisms of their involvement?

11.6. Do you think there are effective mechanisms applied to ensure the participation of various stakeholders?

11.7. How effective are they in terms of enforcement?

Section 3: Issues related to the relationship between investment policy and democracy

There is a point of view that investment inflows can be "corrosive" and "constructive".

"Corrosive Capital" capital is financing, whether state or private, that lacks transparency, accountability, and market orientation. Originating from authoritarian regimes, Corrosive Capital exploits and exaggerates governance gaps to influence economic, political, and social developments in recipient countries.

"Constructive Capital" refers to financial flows that are well-governed at the funding source and destination and respond to market voids. It provides transparent terms and entry into the market, accountability to a wide array of local stakeholders in the recipient country, and justification is based on market principles.

12. What approaches, thoughts do you have regarding the descriptions above?

12.1. To what extent do you agree with this division?

13. Can capital inflows, depending on the type, affect democracy? How?

13.1. In your opinion, how should be the respond to such situations?

13.2. What kind of mechanisms and measures are needed?

14. Approaching the question from the above-mentioned view, what investments would you consider corrosive and what investments – constructive in Armenia? Please, give some examples?

15. What factors contribute to corrosive investments in RA? Why?

We are near the end of our conversation. Before wrapping up:

16. What sources would you recommend learning more about the issue?

17. Are there any questions related to the topic that we have not addressed, and you would like to add?

This brings us to the end of our conversation. Thank you for your participation and your time!

ANNEX 3. THE WEIGHT OF NET INFLOWS OF FOREIGN TOTAL AND DIRECT INVESTMENTS BY TYPE OF ACTIVITY FROM AUTHORITARIAN COUNTRIES, 2014-2021

Type of activity	Country	2014		2015		2016		2017		2018		2019		2020		2021	
		total investments	direct investments	total investments	direct investments	total investments	direct investments	total investments	direct investments	total investments	direct investments	total investments	direct investments	total investments	direct investments	total investments	direct investments
crop and animal production, hunting and related service activities	Russian Federation	-2.87	-3.67	0.07	0.00	3.17	0.14	0.29	0.00	1.92	0.48	28.85	23.27	79.31	79.38	-8.08	-7.24
fishing and aquaculture	Russian Federation	-	-	-	-	-	-	-	-	-	-	100.00	100.00	100.00	100.00	100.00	100.00
mining of metal ores	Russian Federation	0.00	0.00	69.61	100.00	48.14	91.98	0.01	-0.04	-28.47	1,919.50	30.93	0.00	14.10	1.13	-2.80	47.59
other mining and quarrying	Russian Federation	0.00	0.00	0.00	0.00	23.21	-0.20	119.12	16.33	-1.62	-0.15	32.64	-0.10	93.93	93.93	108.48	4.37
mining support service activities	Russian Federation	13.99	0.00	8.05	0.00	0.62	2.83	0.03	0.01	0.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00
manufacture of food products	Russian Federation, Iran, Cuba	8.96	136.83	-173.05	-172.01	-62.26	-32.99	139.07	131.87	100.00	100.00	102.61	102.61	99.19	99.16	-53.42	104.87

manufacture of beverages	China	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.19	4.20	-1.06	-1.90	4.96	5.87
manufacture of wearing apparel	Russian Federation	0.00	0.00	19.19	42.36	1.64	224.55	13.88	0.00	-	-	-	-	-	-	-	-	-
manufacture of leather and related products	Russian Federation	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
manufacture of basic pharmaceutical products and pharmaceutical preparations	Russian Federation	100.00	100.00	108.06	100.00	-	-	-	-	-	-	-	-	-	-	-	-	-
manufacture of basic metals	Russian Federation	0.19	-14.00	-5.38	-5.30	95.84	-39.89	43.30	24.12	36.86	35.26	89.46	114.03	0.00	0.00	0.00	0.00	
manufacture of computer, electronic and optical products	Russian Federation	165.06	165.06	-231.35	-231.35	39.82	39.81	92.50	192.50	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
manufacture of electrical equipment	Russian Federation	15.68	13.27	59.15	100.00	92.71	166.89	257.46	157.43	40.91	282.86	9.77	-9.77	-1.61	-1.74	-1.71	-2.10	
manufacture of machinery and equipment n.e.c.	Russian Federation	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
other manufacturing	Russian Federation	77.34	0.00	99.63	0.00	93.65	0.00	4.47	48.65	63.71	78.22	87.73	95.32	116.67	91.50	100.87	99.36	
electricity, gas, steam and conditioning supply	Russian Federation, Iran	53.14	100.61	27.03	39.46	-50.05	-264.78	98.57	39.95	107.31	107.26	56.40	42.41	-1,694.85	-368.40	23.82	24.01	

construction of buildings	Russian Federation	0.80	9.90	1.86	36.65	0.00	-	0.00	0.00	1.86	1.95	83.71	148.91	0.18	0.18	-3.22	-3.22
wholesale and retail trade and repair of motor vehicles and motorcycles	Russian Federation, Uzbekistan	100.00	100.00	100.00	100.00	-	-	100.00	100.00	100.00	100.00	-	-	-	-	-	-
wholesale, trade, except of motor vehicles and motorcycles	Russian Federation	922.68	0.00	03.18	0.00	74.93	130.73	49.34	60.64	89.55	94.10	47.38	65.43	97.83	130.45	92.01	18.69
retail trade, except of motor vehicles and motorcycles	Russian Federation, Belarus	895.87	0.13	02.23	0.05	75.01	130.79	53.79	60.70	91.49	94.10	47.38	65.43	97.80	130.40	92.28	19.31
land transport and via pipelines	Russian Federation, Iran	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.04	100.00	100.03	100.00
warehousing and support activities for transportation	Iran	73.43	74.51	101.11	99.78	0.00	0.00	0.00	-	0.00	0.00	0.00	-	-	-	0.00	0.00
accommodation	Russian Federation	0.65	0.81	0.03	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
telecommunications	Russian Federation	771.41	87.57	-10.49	-12.27	62.19	-38.23	20.96	11.94	125.33	-107.01	37.98	25.65	81.97	86.79	6.17	0.00
computer programming, consultancy and related activities	Russian Federation	0.43	0.43	0.06	0.05	0.07	0.07	-2.30	-2.30	0.06	0.06	7.19	-2.57	-1.48	-3.07	0.11	0.11

financial service activities, except insurance and pension funding	Russian Federation	0.00	0.00	1.42	1.42	8.86	8.86	10.67	10.67	21.67	21.67	12.80	12.80	12.50	12.50	23.08	23.08
activities auxiliary to financial services and insurance activities	Russian Federation	36.24	36.24	0.00	0.00	0.00	0.00	-	-	-	-	100.00	100.00	-	-	-	-
real estate activities	Russian Federation	1.26	1.26	-12.39	-12.39	3.89	3.89	-20.80	-26.95	-14.75	3.51	6.81	3.95	5.60	-5.27	26.93	7.52
legal and accounting activities	Russian Federation	98.38	100.00	101.15	100.00	110.26	100.00	51.28	50.00	827.50	47.41	67.12	52.94	94.35	53.06	35.38	52.90
scientific research and development	Russian Federation	-15.06	-15.06	100.80	100.80	115.53	115.53	100.00	100.00	28.52	28.52	0.00	0.00	0.00	0.00	15.99	15.69
other professional, scientific and technical activities	Russian Federation	100.00	100.00	100.00	100.00	-	-	-	-	-	-	-	-	0.00	0.00	0.00	0.00
gambling and betting activities	Russian Federation	-	-	100.00	100.00	-	-	-	-	-	-	-	-	-	-	-	-
sports activities and amusement and recreation activities	Russian Federation	37.77	54.85	-67.27	100.00	6.54	-2.85	100.00	54.26	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
other personal service activities	Russian Federation	-	-	-	-	-	-	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00