

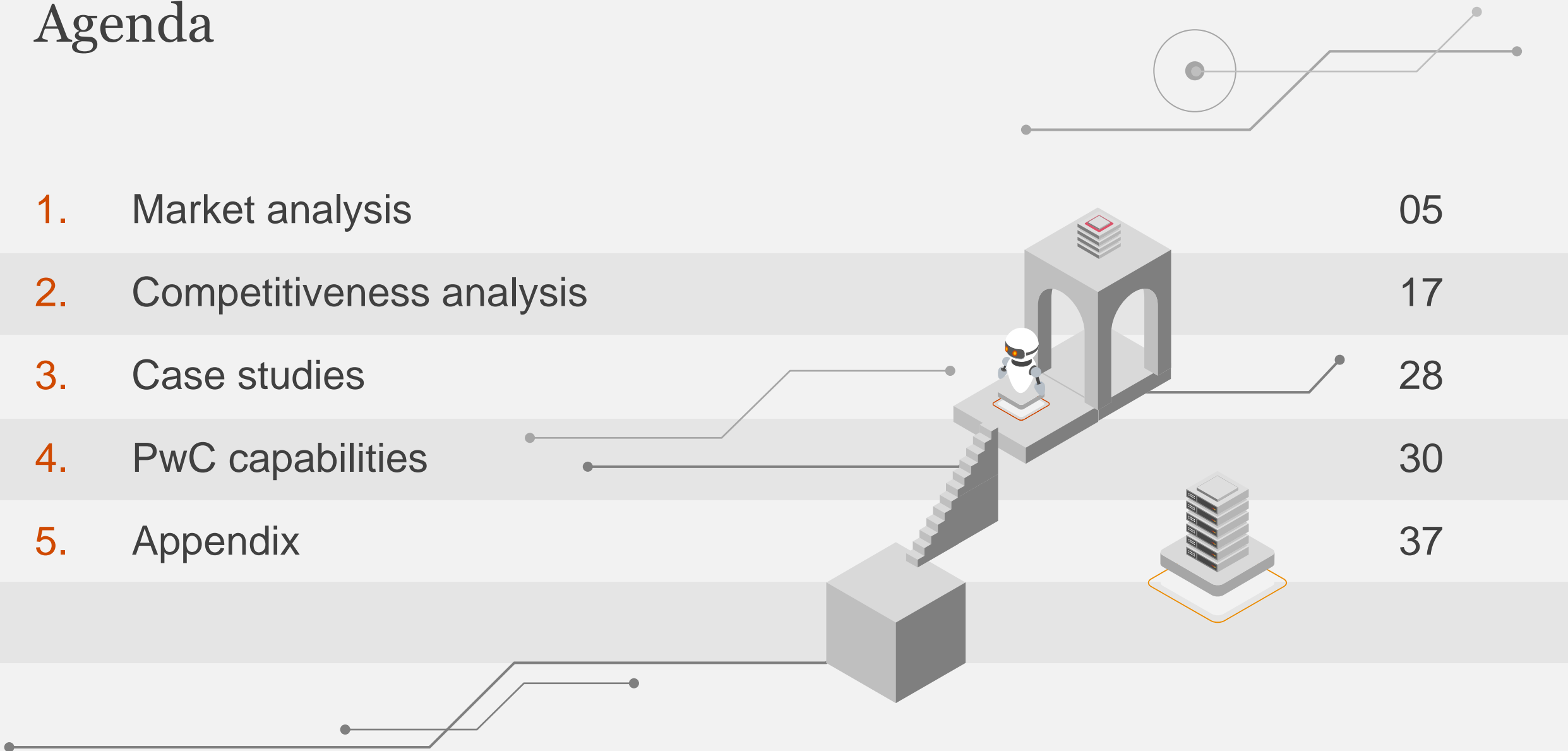


Armenia IT industry
overview

October 2021



Agenda



1.	Market analysis	05
2.	Competitiveness analysis	17
3.	Case studies	28
4.	PwC capabilities	30
5.	Appendix	37



**Inga
Shakhnazarova**

Country
Managing Partner

The information technology (IT) industry in Armenia has experienced rapid development for several years running. Since the start of the pandemic, the industry has shown enormous progress and significant revenue growth, strengthening its position as one of the key industries in the country.

In the Armenian IT market, success has been enjoyed by small startups as well as major international companies. Over the past three years, market players could not help but notice the appearance of an IT ecosystem—which has been a critical step in making the industry more attractive and sustainable and which will serve as a foundation for further growth.

We have prepared this overview to provide you with additional information about the Armenian IT market and its potential, as well as insights from companies on doing business in the country.

We would like to express our gratitude to the World Bank Group / International Financial Organization, which provided us with important data from the Armenia Economic Growth Advisory project.



**Alexey
Rusanov**
Managing Director

The Armenian IT market is developing rapidly and has already enjoyed a number of success stories. Indeed, the IT sector has become an important part of the country's economy and business image. With every year, the significance of the sector to the Armenian economy has grown and become more noticeable in the eyes of the investors who are looking at Armenia as a potential investment point.

The key questions we asked ourselves when preparing this overview were: What is driving the growing attractiveness of the Armenian IT market for investors? And how can we support further growth?

To answer these questions, we conducted our own research, analysed the World Bank Group/IFC report, conducted interviews with key market players and business angels, and met with government officials to present a comprehensive view on the industry.

In the course of our research, we noticed a common trend—market players are highly confident in the sector's potential. Key players in the IT ecosystem see several growth areas and are looking forward to improvements in the upcoming future.

We at PwC Armenia are delighted to present you this overview of the current situation in the industry and its future prospects.

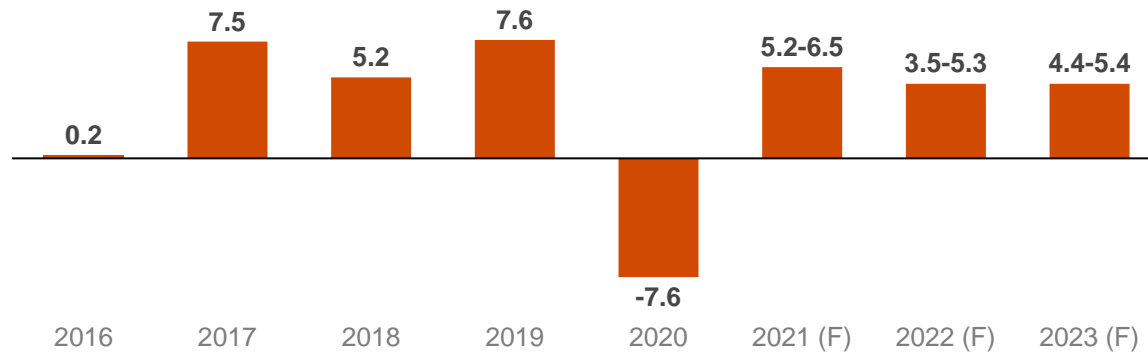
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Market analysis

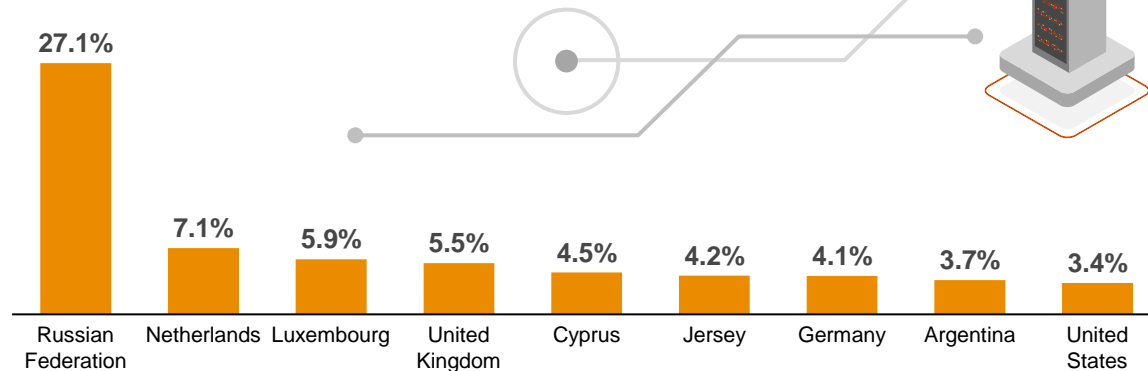


Macro overview of Armenia

GDP change, %

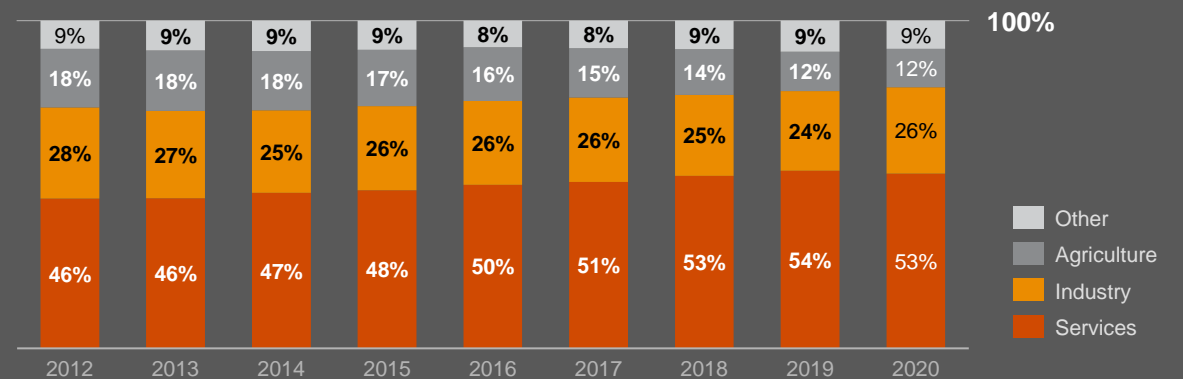


FDI inflows, 10 leading countries, 2020

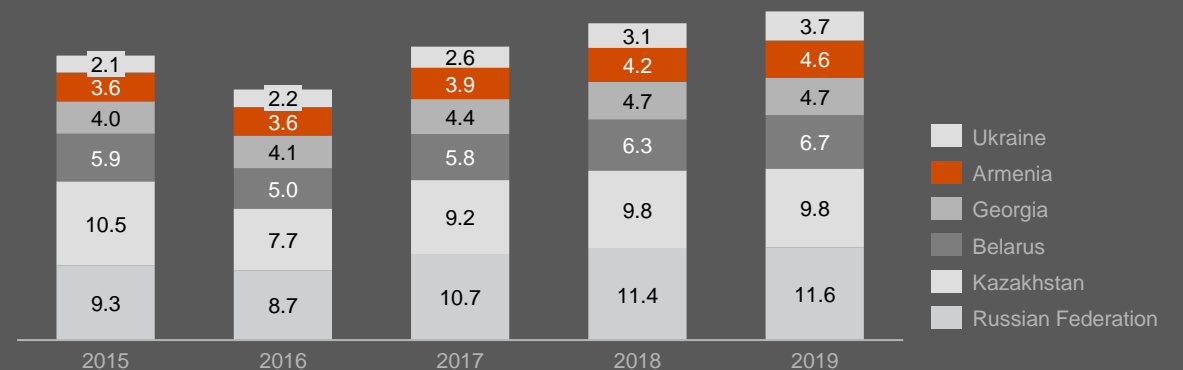


Source: Armstat, open sources
Armenia IT industry overview
PwC

Distribution of GDP across economic sectors, %

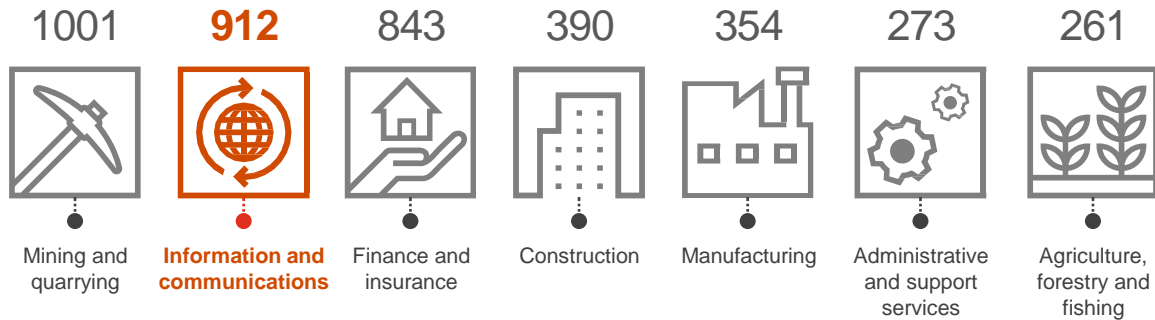


GDP per capita, USD thousand

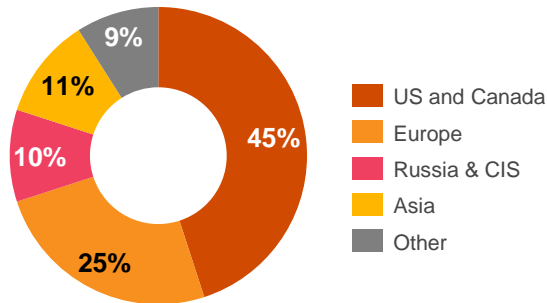


IT industry in Armenia

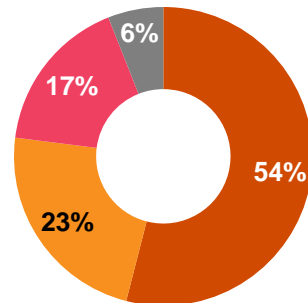
Average salary across industries, USD per month¹



ICT export destinations², %



Foreign investments², %



Source: Armstat, interviews, open sources
Armenia IT industry overview
PwC

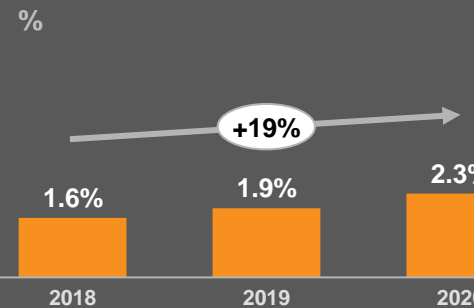
1 – approximated to 2021 based on 2019 data; 2 – 2018



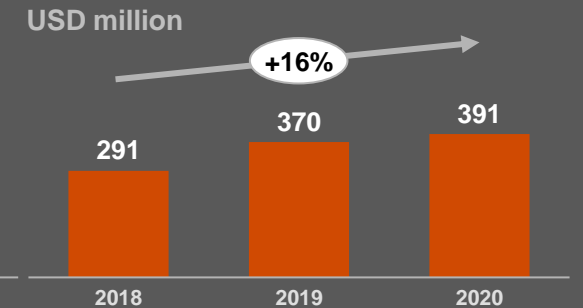
The ICT industry in Armenia has rapidly developed over the past three years. In that time, we have invested near USD 2m in startups in the country. This year, we also launched a venture fund—currently the only VC fund registered in Armenia. We are also working with SAP on setting up a startup factory. Armenia would become one of fewer than 10 other countries to have an SAP startup factory.

Grigor Hovhannisyan, Director
Business Angels Network of Armenia; Formula VC

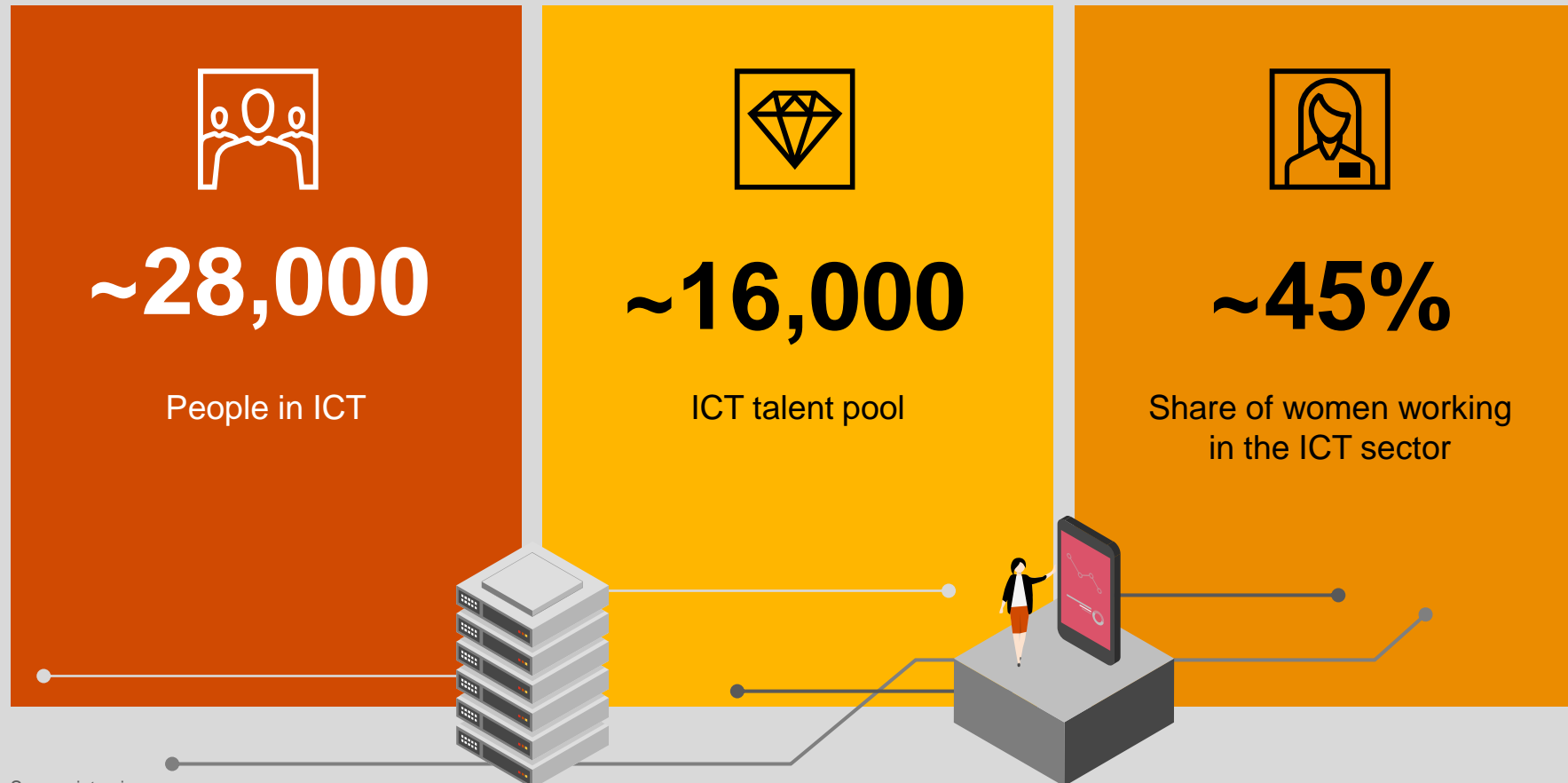
Share of IT in GDP



Revenue of IT companies in Armenia



ICT market in Armenia: human capital snapshot



Let's review what has happened in Armenia over the last three years. As many local and international companies are flourishing here, demand for professionals has grown fast. The educational ecosystem is facing a challenge to meet demand, so companies have started hiring entry-level specialists and investing more in training and upskilling.

Grigor Hovhannisyan, Director
Business Angels Network of
Armenia; Formula VC

Interview quotes



Picsart was the first startup company that put Armenia on the global map. This is a significant achievement. Now we have many strategic and new funds. Armenia is now known by investors as a talent pool with some product trading, but we still need to grow to compete with others. The network of Armenians outside of Armenia has strengthened, bringing more people into the country and creating new funds focused on Armenia. All of this creates new opportunities. The ecosystem is become more mature.

Artavazd Mehrabyan,
Co-Founder & CTO
Picsart

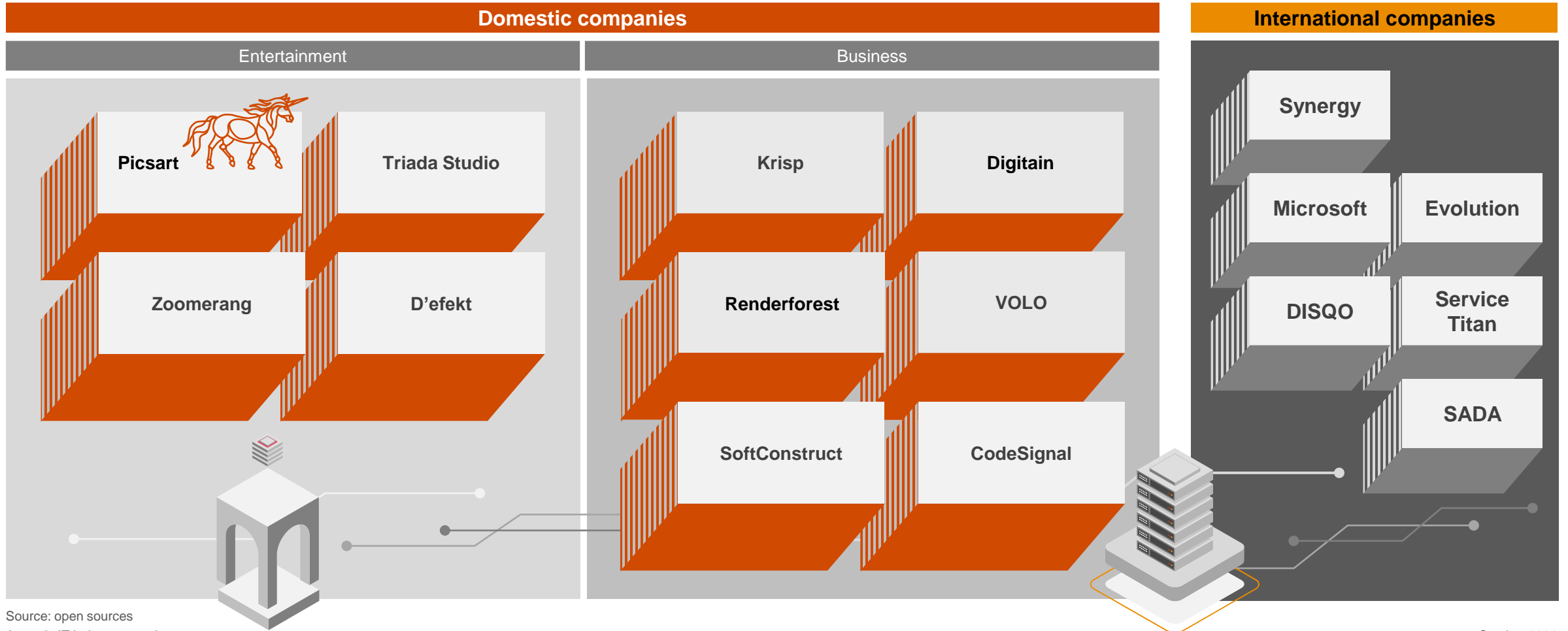


Value created by the Armenian team is not less than the value created by the US team, in some cases it is actually more and meaningfully more.

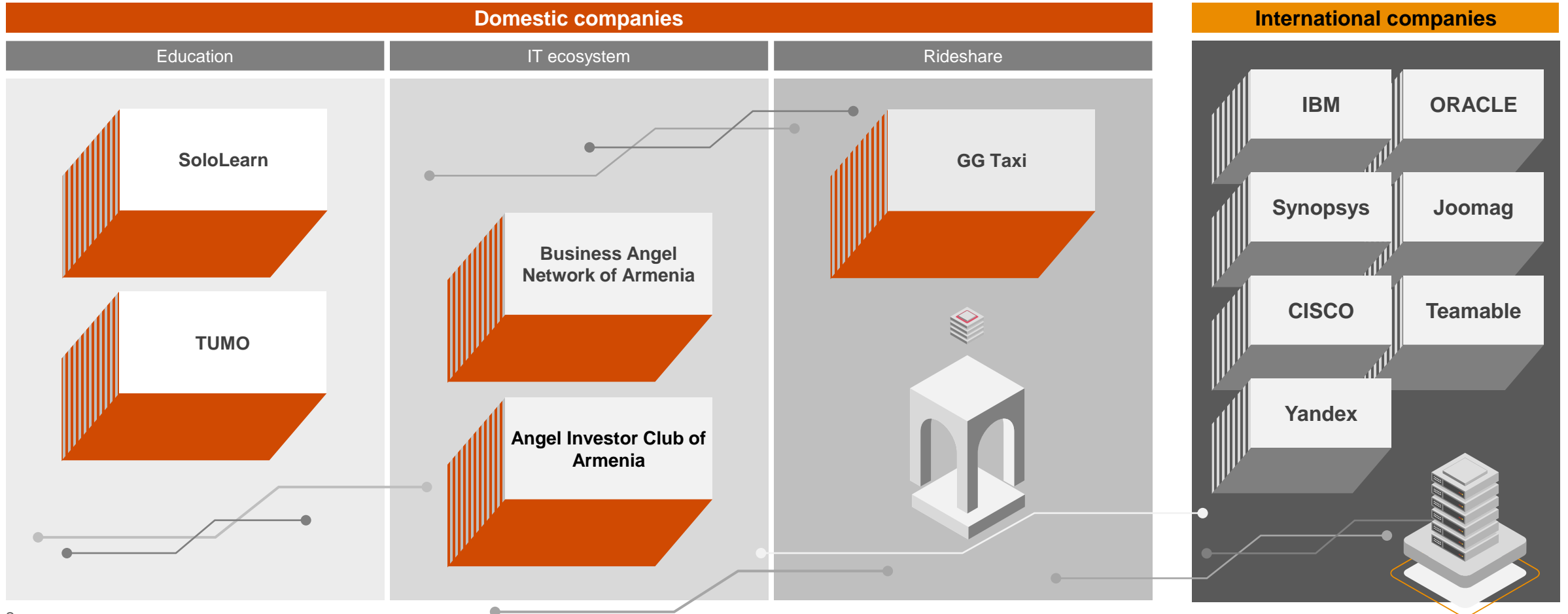
What is unique for Armenians—is the level of greet, hunger and desire to make an impact, also the level of curiosity. I think one can get more return on your investment in Armenia than in other places.

Vach Hovsepyan,
ex-Head of International Strategy & Operations
ServiceTitan

Major players—selective list of IT companies (1/2)



Major players—selective list of IT companies (2/2)

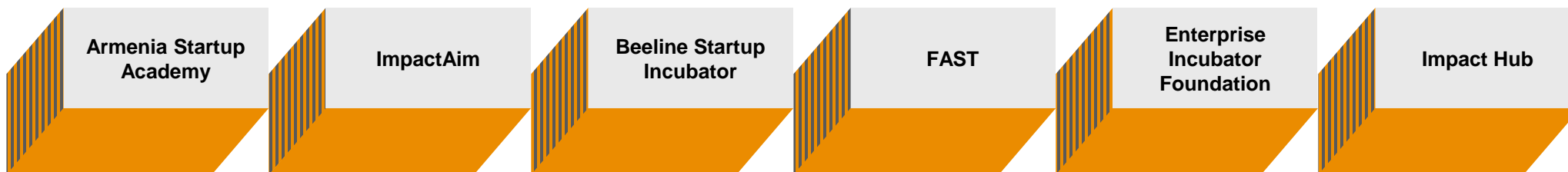


IT ecosystem members—selective list

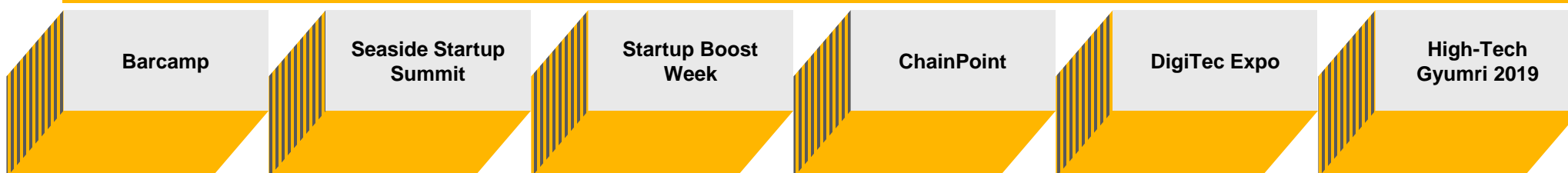
Business angels and venture funds



Accelerators and business incubators



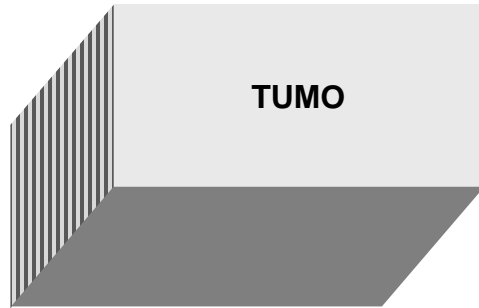
Events



People have started to believe that they can make change on a global level and that they are just as capable as people in the US and other countries.

**Artavazd
Mehrabyan,**
Co-Founder
& CTO Picsart

IT educational organisations—selective list



TUMO

Free-of-charge educational programme that puts teens in charge of their own learning. The curriculum includes self-learning activities, workshops and project labs that revolve around 14 learning targets



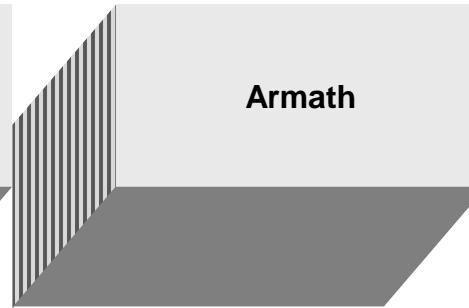
Gyumri Technology Centre (GTC)

The goals of the GTC include the development of technical and business skills, promotion of technological entrepreneurship and the commercialisation of technology



Vanadzor Technology Centre (VTC)

VTC's mission is to turn Vanadzor into a regional and international high-tech centre by creating a dynamic environment of opportunities and services that will promote job creation and support talented youth and organisations in implementing innovative business ideas



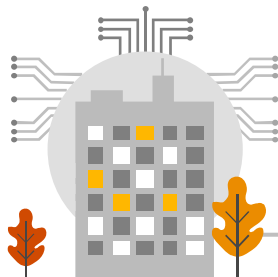
Armath

At Armath Engineering Laboratories, kids aged 10-18 are introduced to science, technology, engineering and math education through interactive after-school classes, exciting competitions, innovative camps and more



Microsoft Innovation Centre Armenia

Initiates, organises and implements various targeted projects and activities, including training programmes, coding bootcamps, startup programmes and competitions, and provides resources and infrastructure to support IT startups, professionals and students

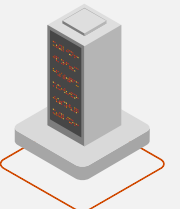


Priority ICT sectors in Armenia are: Software, IT services, Electronic Components

Sector	Investment volume	Regional market share	Trend	Job value	Match with local supply	Sector priority
Software						4.4
IT Services						3.1
Telecommunications						2.8
Electronic Components						2.6
Dedicated Platforms						2.5
Multimedia						2.4
Cloud						2.1
Electrical Equipment						1.9
Communications Equipment						1.8
Precision & Optical Instruments						1.6
Information Services						1.6
Consumer Electronics						1.4
Computers & Computer Equipment						1.3

Top three priority sectors

Activity in this industry is almost entirely market driven and, as such, is not a key priority from a marketing and investment attraction standpoint nor from an analytical perspective



ICT subsector prioritisation

Subsector finetuning criteria		
Software	System/packaged software development	Dedicated platform product design
Investment volume		
• Global investment volume	●	◐
• Contestability of investment	●	◐
Potential of Armenia		
• Local presence	◐	◐
• Emerging opportunity	◐	●
• Cost driven investment	◐	◐
Strategic fit & policy focus		
• Synergy/Strategic focus	◐	●

Subsector finetuning criteria				
Information Technology Services	IT Consulting	(Outsourced) IT operations	(Outsourced) application development	BPO/IT enable services
Investment volume				
• Global investment volume	◐	◐	◐	●
• Contestability of investment	◐	◐	◐	●
Potential of Armenia				
• Local presence	◐	●	●	◐
• Emerging opportunity	◐	◐	●	◐
• Cost driven investment	◐	◐	◐	●
Strategic fit & policy focus				
• Synergy/Strategic focus	◐	◐	◐	◐

Subsector finetuning criteria			
Electronic Components	Electronics component manufacturing	Electronics component assembly	Electronics design/prototype manufacturing
Investment volume			
• Global investment volume	◐	●	◐
• Contestability of investment	◐	●	◐
Potential of Armenia			
• Local presence	◐	◐	●
• Emerging opportunity	◐	◐	●
• Cost driven investment	◐	●	◐
Strategic fit & policy focus			
• Synergy/Strategic focus	◐	◐	●

Low/small(1) ○ → ● High/large(5)

Interview quotes



The Company has ambition to hire thousands of employees in Armenia over the coming years, with hundreds of employees already by the time of opening our studio in Armenia.

Jacob Claesson, Head of Operations in Georgia & Armenia
Evolution

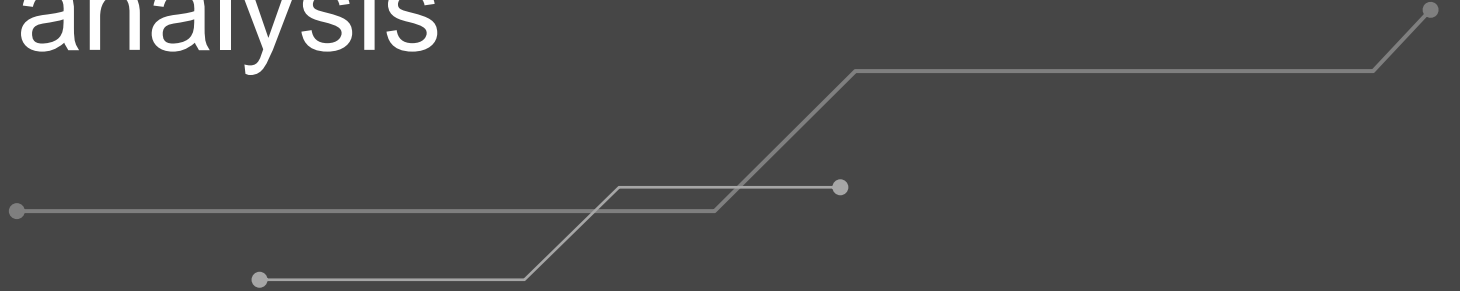
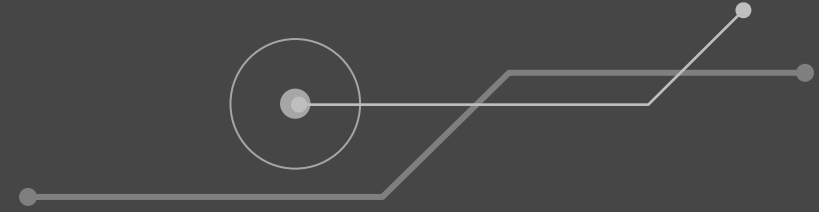


Over the last four years, due to the rapid development and promising results of the Armenian startup ecosystem we have well founded institutions of business angels and VCs. As a result of all these positive changes, the startup entrepreneurs have a great opportunity to receive not only investment, but SMART money. As a consequence, the startup entrepreneurs became very matured and educated. This is a very important component of successful businesses.

Anna Gevorgyan, Co-founder
Angel Investor Club of Armenia

2

Competitiveness analysis



Country rankings (1/2)

Doing Business 2020	
45	Slovak Republic
46	Belgium
47	Armenia
48	Moldova
49	Belarus
7	Georgia
28	Russia

World Competitiveness 2019	
67	Vietnam
68	India
69	Armenia
70	Jordan
71	Brazil
74	Georgia
43	Russia

Economic freedom 2021	
30	Latvia
31	Qatar
32	Armenia
33	Cyprus
34	Kazakhstan
7	Georgia
42	Russia

Talent Competitiveness 2020	
58	Serbia
59	Croatia
60	Armenia
61	Jordan
62	Panama
68	Georgia
48	Russia



It's very easy to start a company. It is very easy to do all the legal stuff. Nothing is really complicated. Of course, we hired a law firm and an accounting firm, but we have faced no obstacles in creating an entity, starting a business or finding office space. Another advantage is Armenia's geographic location and proximity to Europe.

Hovig Safoian,
Co-founder & Chairman
SADA



We have a mission to position Armenia among the countries that have a significant impact on innovations across the globe. One of the projects we are currently working on is the Engineering City, which will be ready within the upcoming year. This is quite an attractive project for investors, both local and foreign. We also consider construction of an Industrial City next to the Engineering City to establish a full lifecycle: from idea to finished product.

Vahagn Khachatryan, Minister, Ministry of High-Tech Industry



Country rankings (2/2)

Doing Business topics	Rank
Starting a business	10
Dealing with construction permits	62
Getting electricity	30
Registering property	13
Getting credit	48
Protecting minority investors	120
Paying taxes	52
Trading across borders	43
Enforcing contracts	30
Resolving insolvency	95

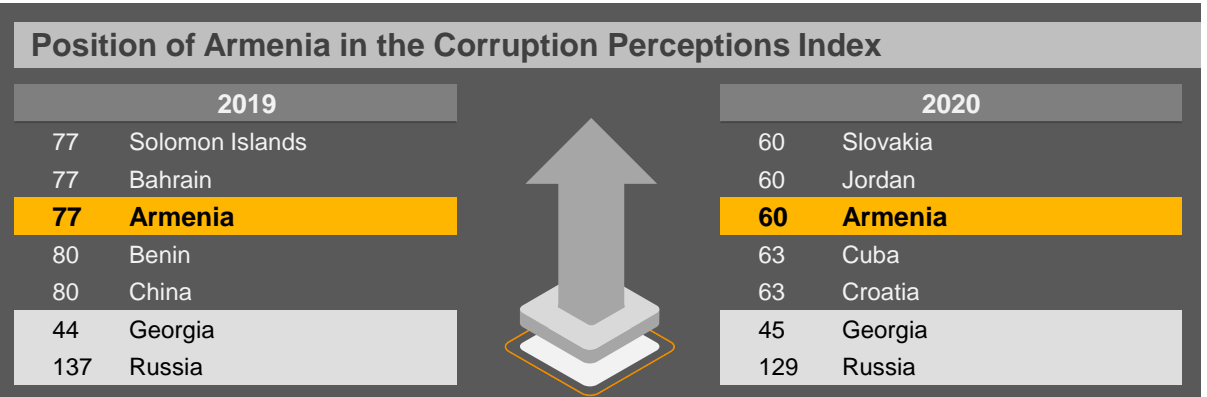
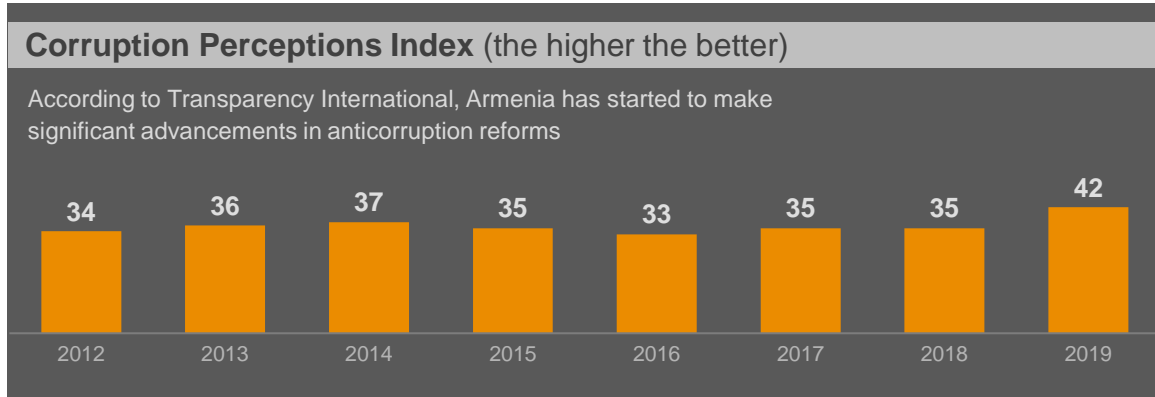
10 Starting a Business Indicator Rank

(The World Bank Group, Doing Business 2020)

In order to register a company, the following information is required:

✓ Company name	✓ Legal type	✓ List of owners
✓ Director of the company	✓ Registration address	✓ Amount of charter capital

PwC Armenia has been subcontracted by the International Finance Corporation to support the Armenian government's efforts to improve Armenia's rankings in the World Bank's annual Doing Business report in 2020.



Tax incentives



General tax incentives

Armenia has adopted a number of investment incentives, including the following:

- VAT payments are postponed for up to three years on imported equipment and goods within the scope of investment projects approved by the Armenian government;
- 0% VAT and 0% excise tax are provided for exporters;
- Profit tax privileges are provided for creating new jobs on projects selected by a relevant government decree.

For IT startups

According to the Law on State Assistance to the Information Technology Sector, IT startups can apply for a **certificate** that provides tax breaks if they meet the following key requirements:

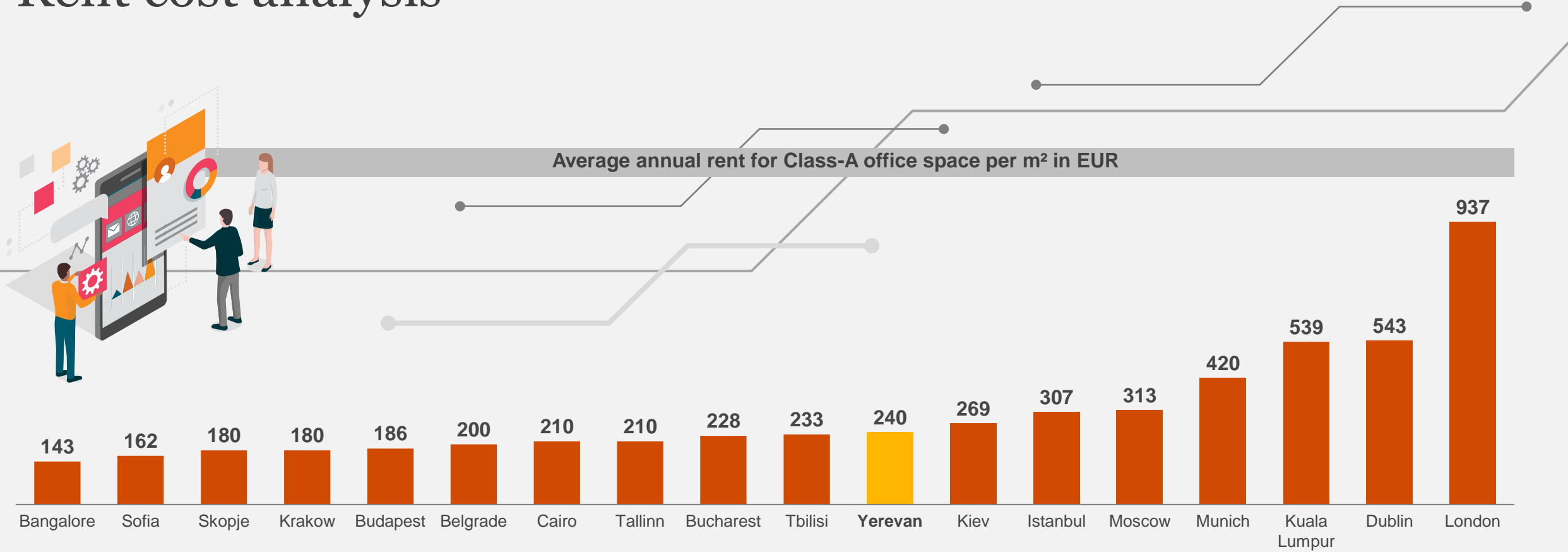
- At least 70% of turnover is derived from specific types of activities;
- IT startups (companies or individual entrepreneurs) are registered in Armenia. The certificate cannot be applied to subsidiaries, economic associations, branch offices or representatives of foreign legal entities;
- The company should have less than 30 employees.

The certificate for IT Startups is provided by the Ministry of High-Tech Industry

- Exempts IT startups from corporate income tax until 31 December 2022;
- Reduces personal income tax withheld by the employer from the standard 22% to 10%;
- R&D activity that meets the criteria set by the Armenian government are considered VAT-exempt transactions.



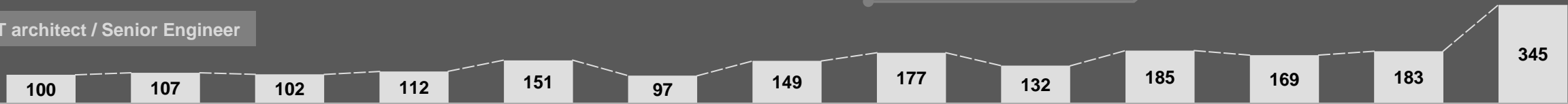
Rent cost analysis



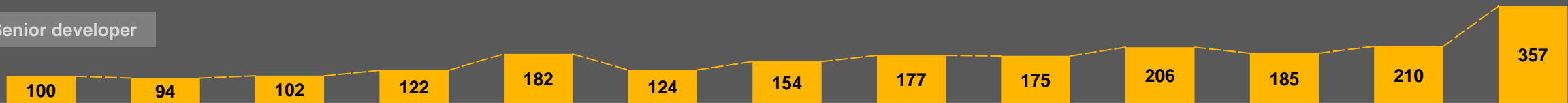
Labour costs in Yerevan and other locations

Index of relative labour costs (salary + employer social security contribution), 100 = Yerevan, Armenia

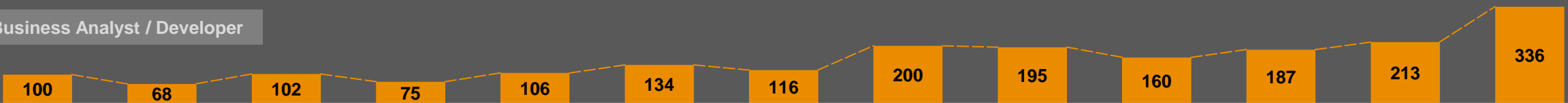
IT architect / Senior Engineer



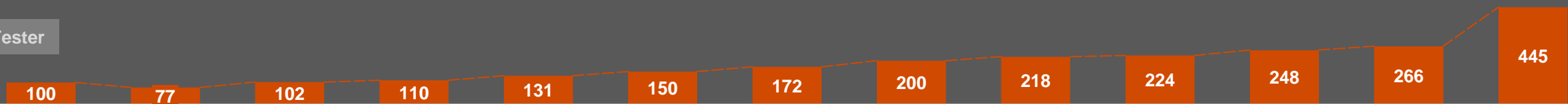
Senior developer



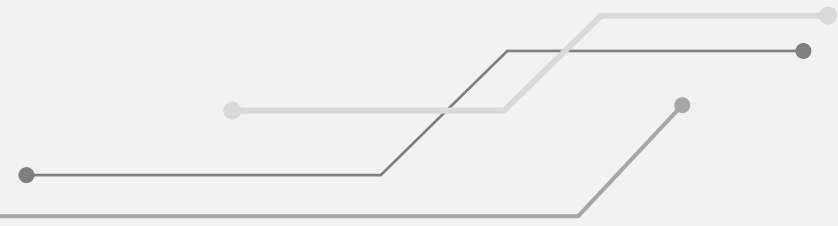
Business Analyst / Developer



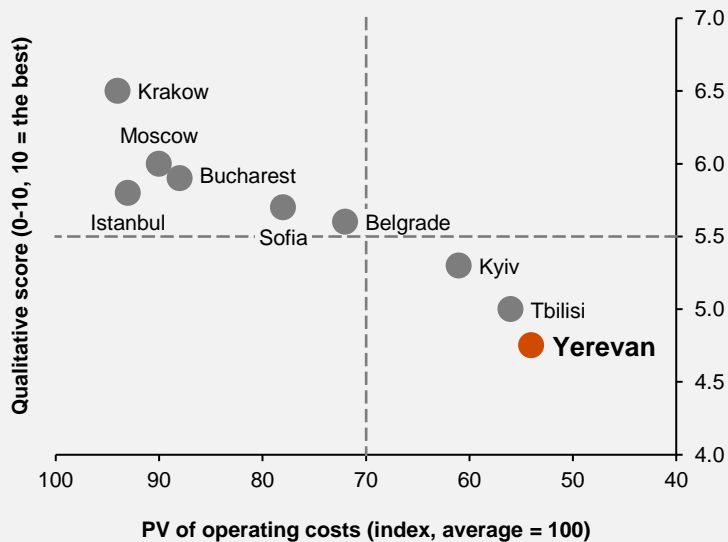
Tester



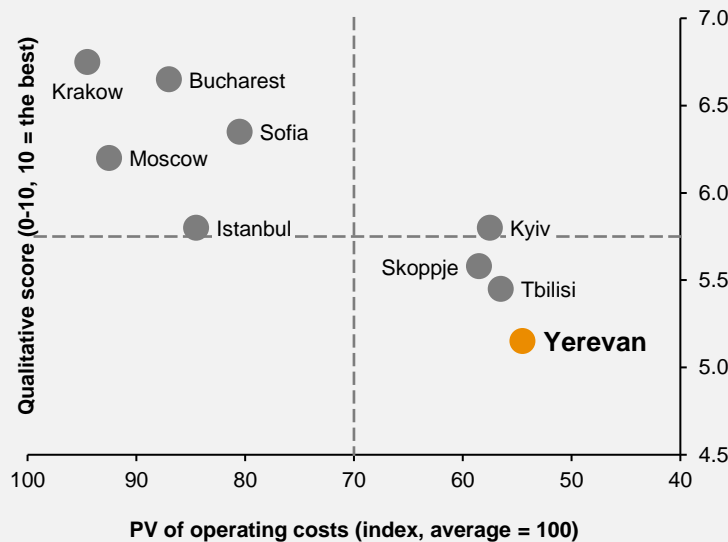
Priority segment benchmarking



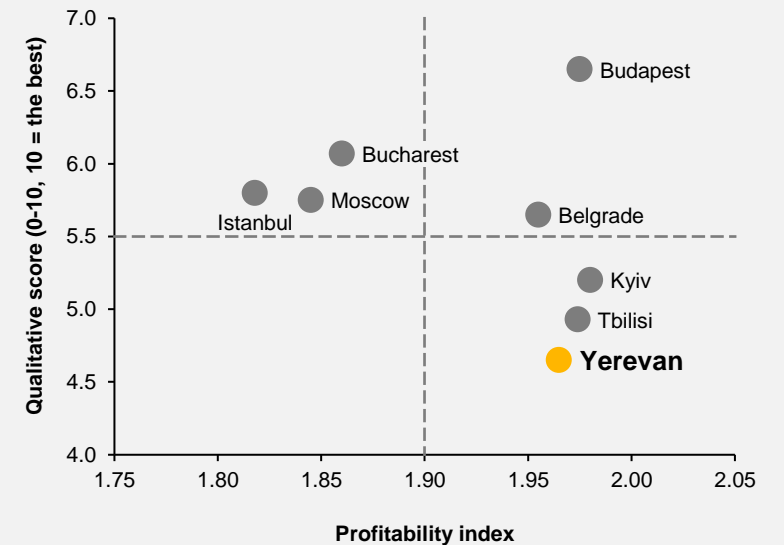
Software



IT services



Electronics

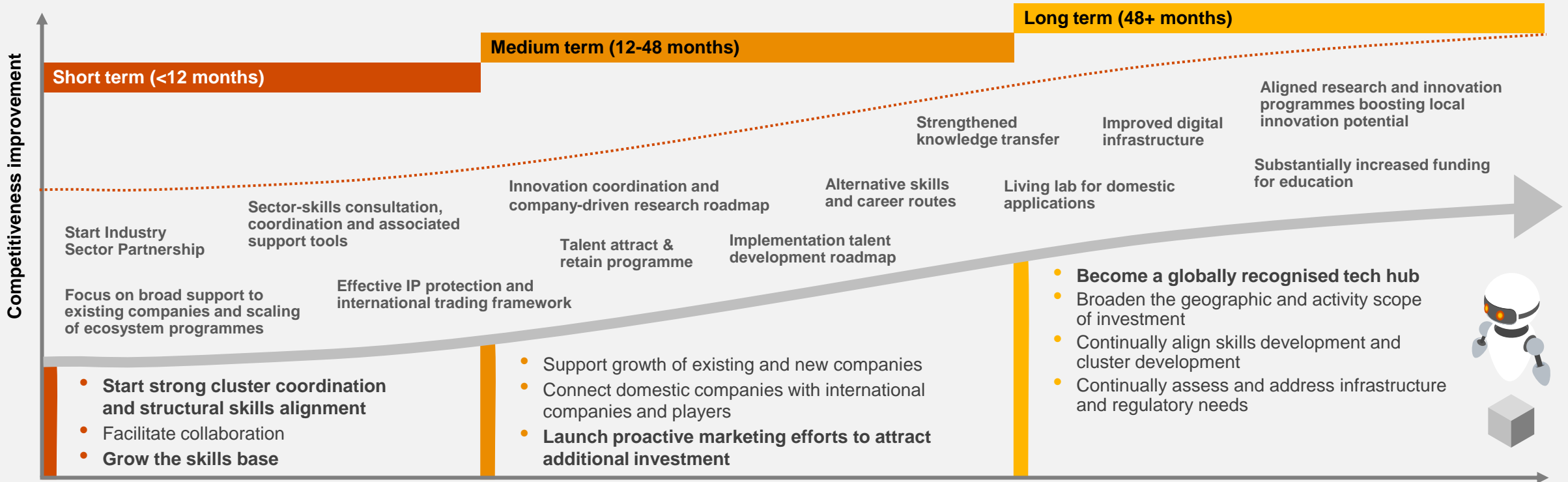


For over two decades, we have operated in Armenia building teams, products and solutions. We have seen the passion and dedication our people put in their daily work. Synergy's solutions have been exported and used in more than 80 countries. And we have seen Armenian tech businesses reinvent themselves and go global, with well-known companies choosing Armenia as their investment destination. But to achieve more exponential and sustainable growth, Armenia needs to look beyond ad hoc solutions. We need to have a structural approach to creating a business enabling environment and incentivizing investment. We also need to improve the quality of education to help sustain the growth of the tech industry and that of the entire country.

Arthur Hovanesian, Executive Vice President
Synergy International Systems

Recommendations to improve FDI competitiveness in the IT sector

Overall summary: ICT sector development roadmap

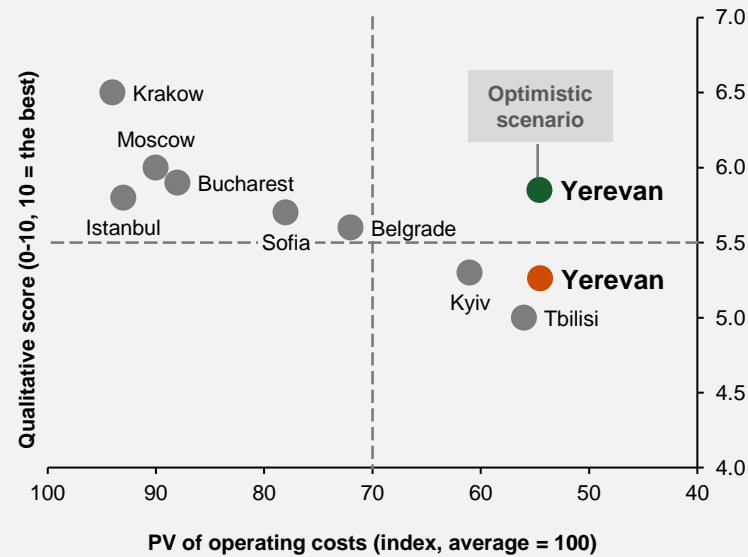


We aim to increase cooperation with the private sector. Looking at startup's history it is obvious that most of the startups would not thrive if there were no backup from the ecosystem. For that reason, we are investing 9mln dollars in the foundation of a new national venture capital fund and are in search of partners from the private sector. This will positively influence knowledge sharing as well.

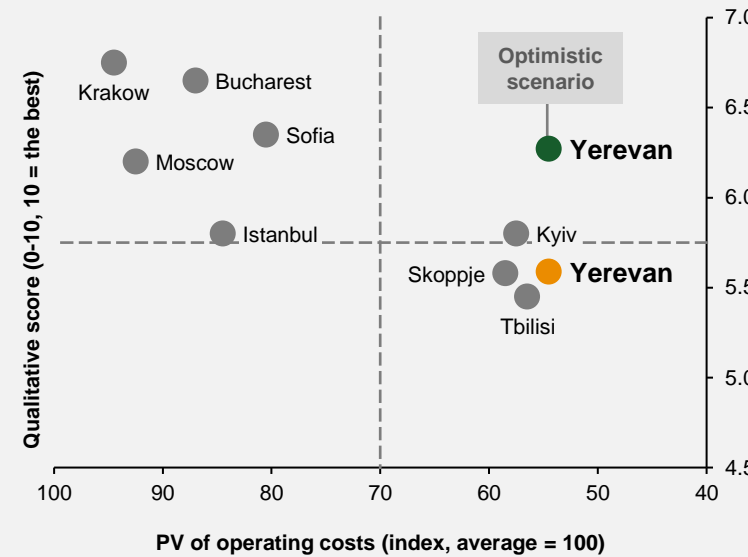
Vahagn Khachatryan,
Minister
Ministry of High-Tech Industry

Priority segment benchmarking: Yerevan can develop significantly in quality

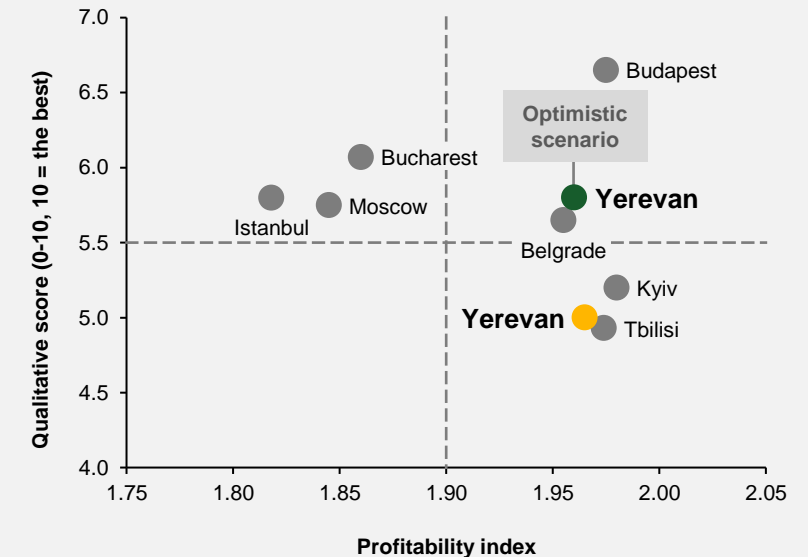
Software



IT services



Electronics



There is a quality talent pool in Armenia that is comparable to the one in Silicon Valley. However, while there is a good supply of junior and some mid-level engineers, there is still a huge potential for development of senior level professionals. To unveil that potential, more preferable conditions for attracting professionals from abroad could be developed, while currently companies are solving this issue by organizing in-house training.

Tania Sahakyan, Regional Director
DISQO

Interview quotes



To develop, we need to create attractive conditions for professionals from other countries, which will allow us to bring world-class experience to Armenia. At the same time, we see a necessity to develop practice-focused education to increase the supply of professionals in the industry. We have innovative labs in universities, which stimulate students to strive for self-development. This will create a contemporary and needed workforce for the industry.

Vahagn Khachaturyan, Minister
Ministry of High-Tech Industry



I can highlight better taxation, especially for people who are not Armenian who would like to move to and work in Armenia or open a business in Armenia. By coming to Armenia, they are not only adding tax revenue, but they also adding value by bringing their culture, knowledge, experience, connections, spending, PR value for Armenia, etc.

Artavazd Mehrabyan, Co-Founder & CTO
Picsart

Interview quotes



Our aim is to provide a wide range of services and products that our company offers in other countries. In Armenia, we have found talented staff, an acceptable cost of labour and level of bureaucracy and, perhaps most important, a predictable business environment and regulations. These issues are crucial for our type of business.

Jacob Claesson, Head of Operations in Georgia & Armenia
Evolution



Education and training of future and current employees should be improved. Today, some companies are handling this issue by themselves. The startup market has grown faster than the educational system can support. The same is true with investment. The number of VCs and business angel organisations need to be increased dramatically to support existing growth.

Grigor Hovhannisyan, Director
Business Angels Network of Armenia; Formula VC

3

Case studies:
executive summary
based on interviews

Executive summary of interviews



Description

Companies presented in the section include:

- IT companies created in Armenia
- foreign IT companies without Armenian founders
- foreign IT companies with Armenian founders
- players in the Armenian IT industry ecosystem

Key advantages

- Low level of bureaucracy
- Quality talent pool
- Low cost of labour
- Investor market instead of startup market
- Lower valuation of startups
- Predictable business environment

Why Armenia

Companies have chosen Armenia mainly for the following reasons:

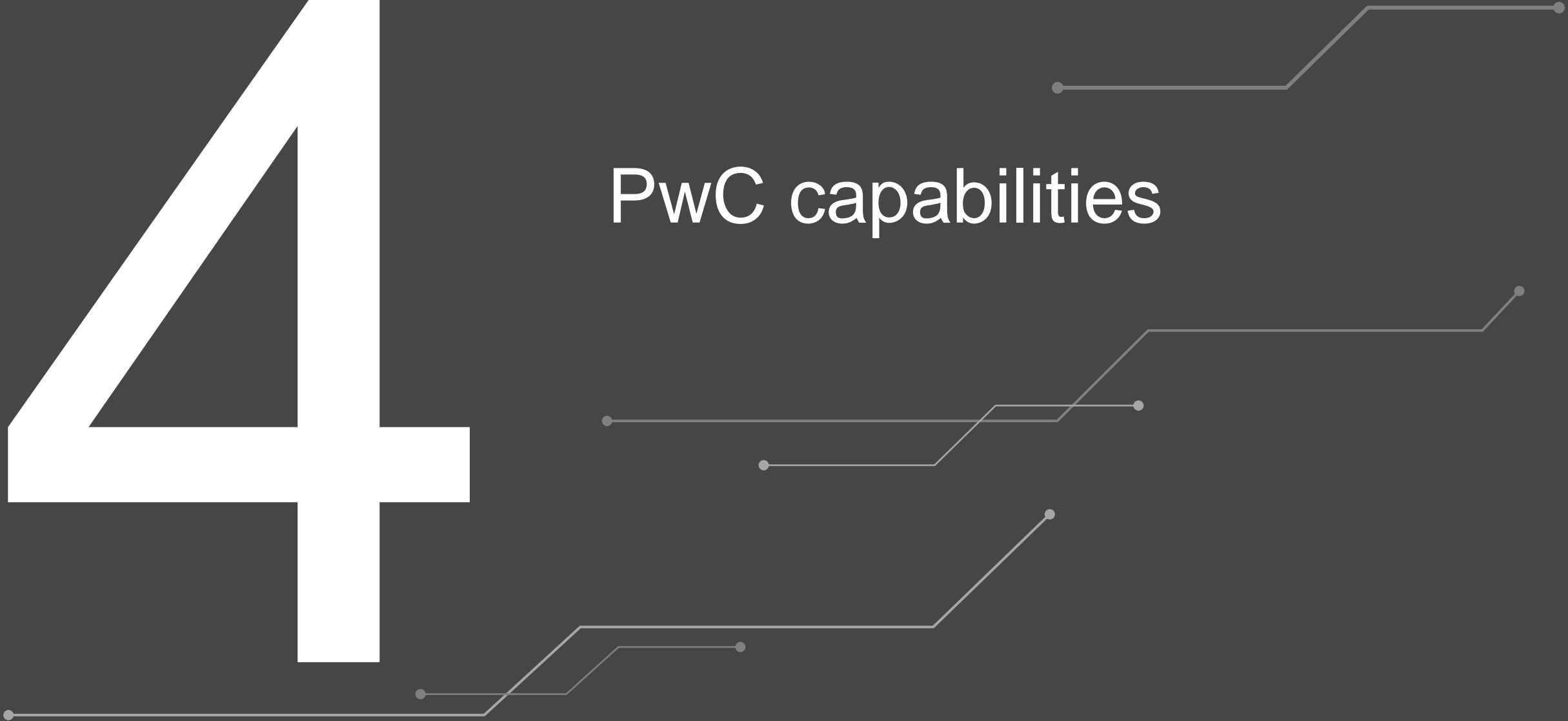
- sustainable growth in the IT market
- maturing IT ecosystem
- higher return on investment than in comparable markets

Key areas for development

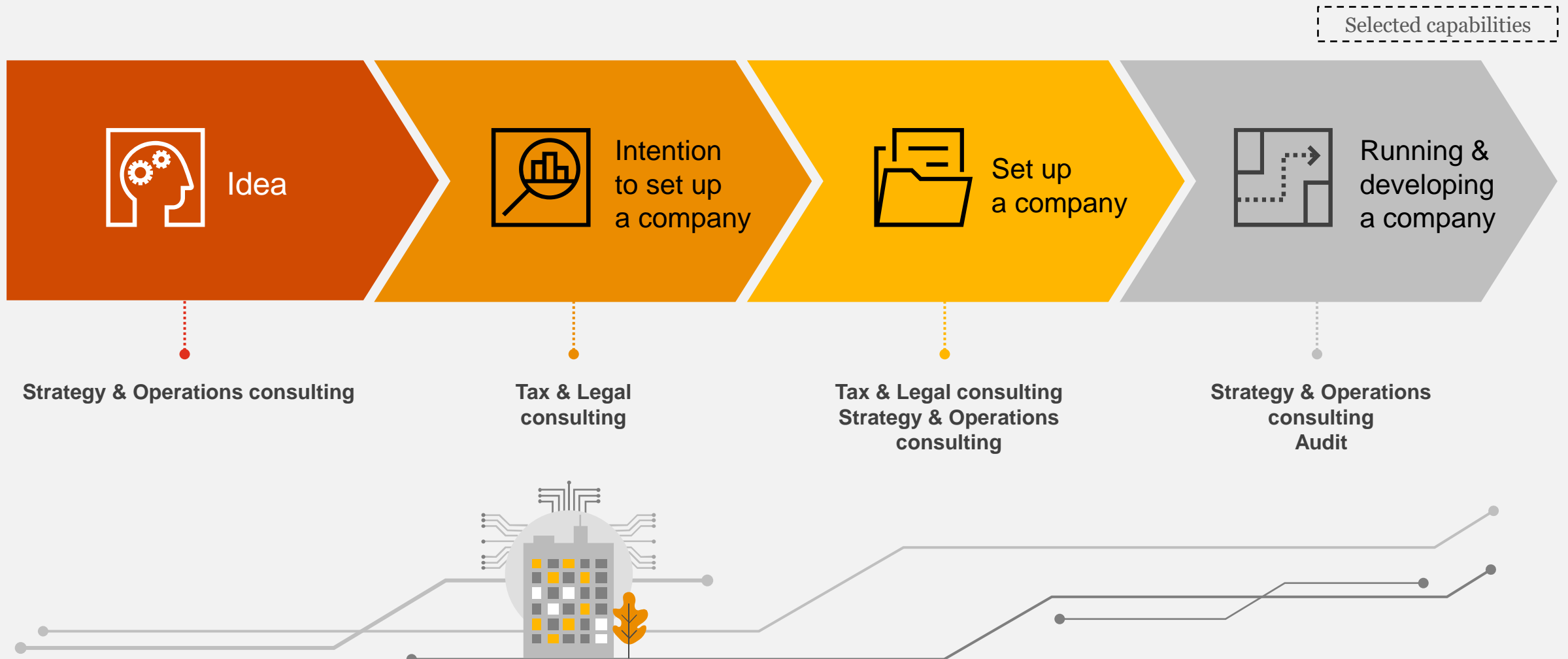
- The shortage of professionals (especially of senior level) in the IT industry should be resolved in two areas simultaneously:
 - output from the educational system to the IT industry should be dramatically increased
 - incentives are needed to attract highly trained expats
- Decreasing regulations for IT startups and introducing more tax incentives

4

PwC capabilities



PwC is a trusted advisor for the entire investment process: from idea to developing a local business



PwC Armenia accomplished a number of strategic and operational consulting projects

Selective list of projects

Relevant projects accomplished	Description
--------------------------------	-------------

<p>Commercial strategy</p>	<p>Commercial strategy</p> <ul style="list-style-type: none"> • Identification and prioritisation • Preferences analysis • Marketing strategy, products and packaging development per priority segments
<p>Recommendations on the launch of new products and services and financial impact analysis</p>	<ul style="list-style-type: none"> • Identification of priority customer segments, key trends and competitors • Development of a strategy for working with priority customer segments, including recommendations on advertisement, products and packaging
<p>Recommendations on business plans and growth estimates</p>	<ul style="list-style-type: none"> • High-level analysis of key prerequisites in the business plan • Forecast of key financial indicators for three to five years • High-level growth recommendations
<p>Strategy sessions for shareholders and senior management</p>	<ul style="list-style-type: none"> • Analysis of the current situation of company and comparison with key market trends and competitors • Identification of key areas of development



PwC Armenia has substantial experience in helping our clients in setting up and consulting new businesses (1/2)

Selective list of projects

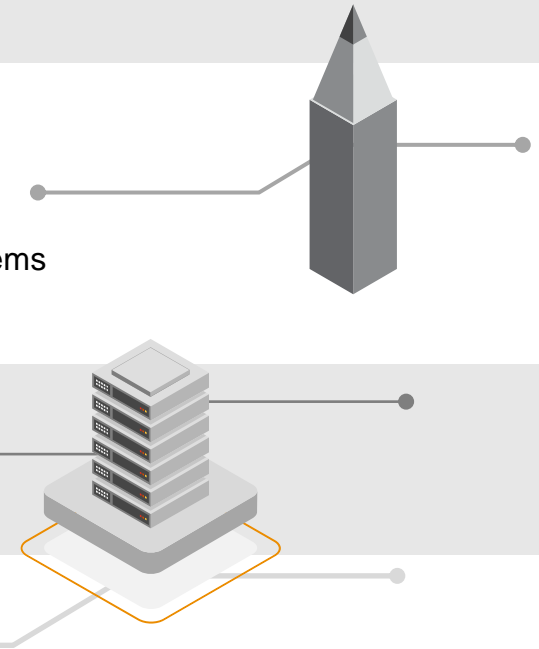
Relevant projects accomplished	Description
Registration	<ul style="list-style-type: none">▪ Obtaining the required documents from the company▪ Reviewing and submitting the documents to the State Register of Armenia (and, if necessary, assisting the company representative with all these procedures)
HR Services	<ul style="list-style-type: none">• Drafting employment contracts for executive and ordinary employees• Drafting internal policies (internal labour regulations, as well as regulations on salary and bonus payments, etc.)• Consultation on various employment law issues
Immigration services	<ul style="list-style-type: none">• Consulting on hiring foreign employees in Armenia• Preparing documents required for obtaining residence status and work permits• Assisting in extending residence and work permits



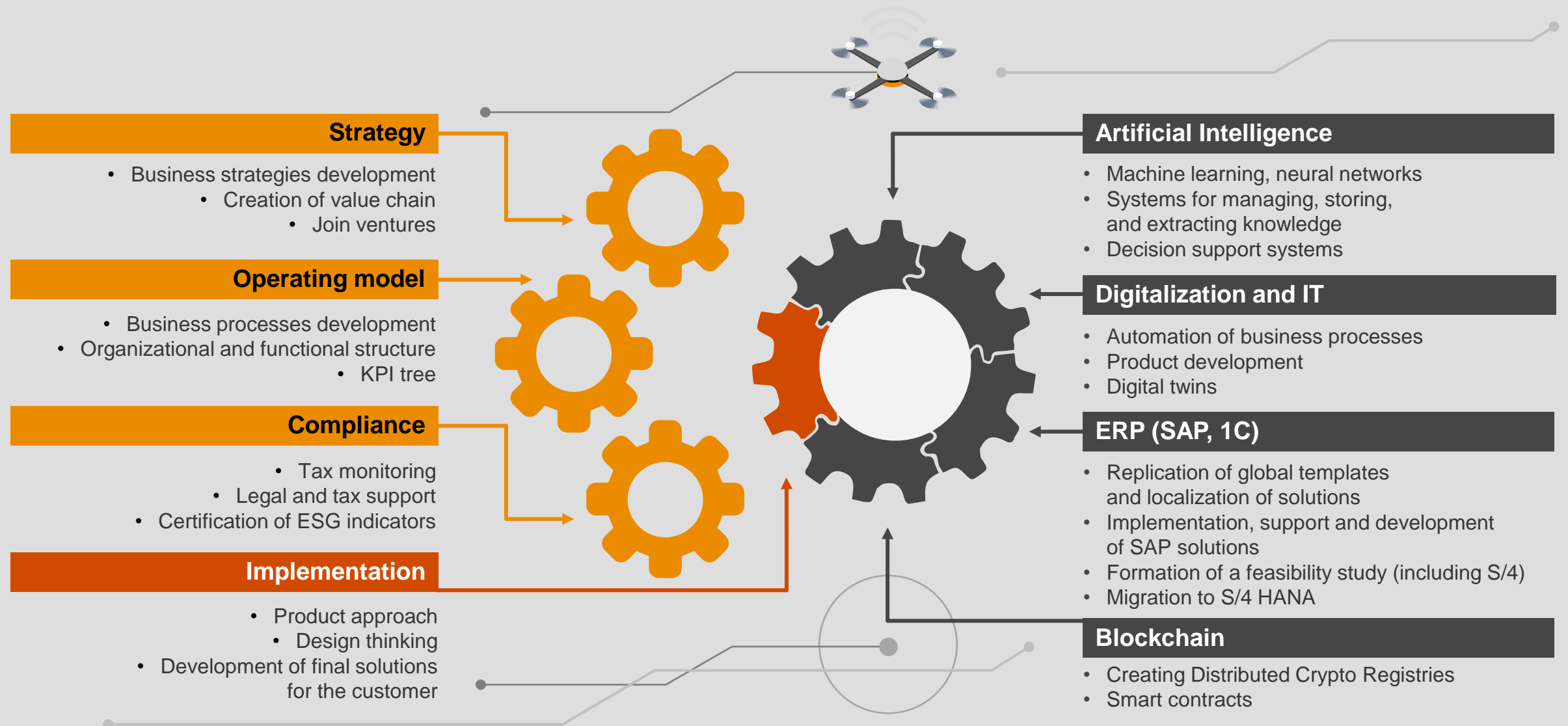
PwC Armenia has substantial experience in helping our clients in setting up and consulting new businesses (2/2)

Selective list of projects

Relevant projects accomplished	Description
Business set up consultation services	<ul style="list-style-type: none">• Identifying the most beneficial legal form of presence in Armenia, both from a business and tax perspective• Assisting in set up a fully operational Armenian entity• Assisting in obtaining all necessary permits• Structuring shareholding and financing in the most tax efficient way• Obtaining residency permits for staff
Tax function effectiveness	<ul style="list-style-type: none">• Formulating a corporate tax strategy• Providing tax optimisation advice• Creating tax risk monitoring and assessment systems• Developing tax forecasting systems• Providing methodological support for automating tax accounting in ERP systems (ArmSoft, Oracle, SAP, 1C and others)
Accounting and outsourcing services	<ul style="list-style-type: none">• Full accounting services• Tax compliance services: CIT, WHT, VAT and others• Payroll services



PwC technological experience and competencies





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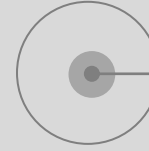
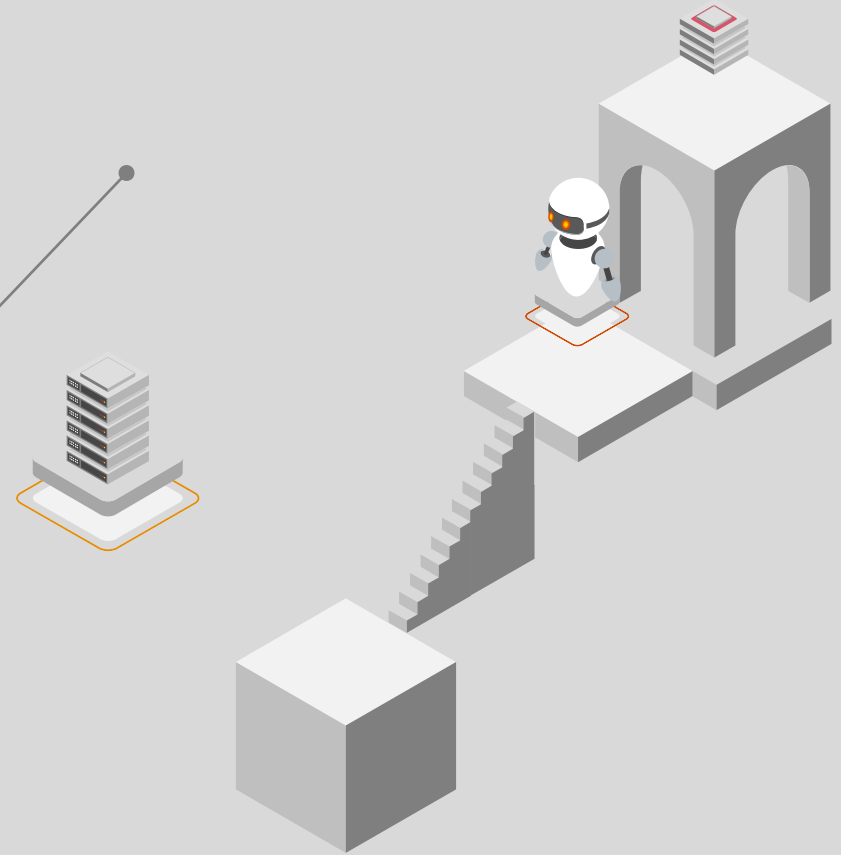
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Manager

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Appendix



The background features several decorative white lines and dots. In the top left, a line starts with a dot, goes right, then up-right, then right, then up-right, ending with a dot. In the top right, a line starts with a dot, goes right, then up-right, then right, then up-right, ending with a dot. A circle with a dot in the center is positioned above the second line. In the bottom left, a line starts with a dot, goes right, then up-right, then right, then up-right, ending with a dot. In the bottom right, a line starts with a dot, goes right, then up-right, then right, then up-right, ending with a dot.

Case studies: summary of interviews

Picsart (based on interviews)



Description

Picsart is a platform that allows users to take and edit pictures and videos, draw with layers and share images

Key advantages

- Ease of setting up a company
- Surplus of junior and mid-level professionals
- Established connections between Armenia and Silicon Valley
- Ecosystem is growing fast and people are motivated to make a change

Why Armenia

- The effect of small country—increasing momentum of startup ecosystem. Developed VC and public funding environment
- Armenia with its talent pool and product trading is acknowledged in the global market's map for investors

Key areas for development

- Increase number of senior level professionals
- Create favourable conditions to attract talent from abroad
- Decrease regulations for IT startups and introduce more tax incentives for companies

Synergy International Systems (based on interviews)



Description

- Synergy is a leading global provider of software solutions that empower public and private sector organisations to achieve their performance goals
- The company provides a full range of services across 80 countries
- In Armenia, the company has around 290 employees in three cities

Key advantages

- High quality employees have the requisite technical, analytical and problem-solving skills
- Costs are lower than in the US, but are comparable with Eastern Europe

Why Armenia

The company's founders have roots in the country and decided to open an office in Armenia

Key areas for development

- The educational system for IT industry needs to be improved
- More support from the government for the industry

Business Angel Network of Armenia (BANA)

(based on interviews)



Description

BANA is focused on two main areas:

- investments through BANA and Formula VC
- ecosystem building and deal flow

Key advantages

- Investors' market: the small number of investors makes it easier for investors to choose where to invest, whereas in developed countries, the market may favour startups
- Product quality is high
- Lower valuation
- Good connections between Armenia's ecosystem and Western markets

Why Armenia

- Investors are able to fund startups in Armenia that are comparable to companies in the developed countries, but with much less valuation
- Engineering quality is high, maybe not comparable to Silicon Valley, but at a very good level

Key areas for development

- Business development capabilities could be improved, as good products need to be sold
- Output of the educational system for IT industry needs to be improved
- There is potential to increase the number of investors

Evolution (based on interviews)



Description

Evolution is one of the world's leading provider of video-streamed Live Casino Solutions, delivering world class live dealer gaming to their licensees, including many of the world's best known companies¹

Key advantages

- Populous capital city from which more than 2,000 employees may be hired
- Good knowledge of English and overall level of education
- Low cost of labour
- Low level of bureaucracy
- Fight against corruption is a positive trend
- Predictable business environment

Why Armenia

- The company has chosen Armenia along with other countries like Belarus, Moldova, Romania, Serbia and Ukraine, as well as additional expansion in Georgia
- Evolution has managed to gain a clear confirmation from the local authorities that it is not considered a gambling company
- The similar values and culture in Georgia and Armenia were vital in reducing the transactional costs of opening an office in a new country

Key areas for development

- Permits from the authorities could have been obtained faster

ServiceTitan (based on interviews)



Description

ServiceTitan is one of the world's leading all-in-one software for commercial and residential HVAC (Heating, Ventilation, and Air Conditioning), plumbing, electrical, and other field service businesses

Key advantages

- Quality talent pool
- Culture in terms of supportive community
- Ease of setting up a company
- Government support
- Availability of outsource professional services

Why Armenia

- Value created by the Armenian team is not less than the value created by the US team, in some cases may be meaningfully more
- The level of greed, hunger and desire to make an impact of employees
- In Armenia return on investment can be higher than in comparable countries, depending on the business type

Key areas for development

- Increase number of senior level professionals
- Create favourable conditions to attract talent from abroad
- The educational system for IT industry needs to be improved

SADA (based on interviews)



Description

SADA is the first Premier Google Partner for 3 years, providing services such as:

- Modernization
- Cloud
- Software development
- Cloud transformation
- Public cloud services, etc.

Key advantages

- Ease of setting up a company
- Geographic location-close proximity to main IT hubs
- Quality talent pool
- Favorable government policies

Why Armenia

There is a good supply of well-trained and bright management, and the potential of the ecosystem is huge

Key areas for development

- Develop favourable taxation system to attract talent from abroad
- The educational system for IT industry needs to correspond to market needs

DISQO (based on interviews)



Description

DISQO provides data on consumer insights. The company has a data platform where more than 20m Americans provide their opinions and behavioural data to the company, which it then analyses and provides to its clients

Key advantages

- Quality talent pool (some at the level of Silicon Valley)
- Ease of setting up a company
- Tax breaks (at some point)
- Surplus of junior and mid-level engineers
- Openness and adaptability of the government for IT companies

Why Armenia

- After the company received a series A investment, it had to devote significant amounts of time to developing its product. The company decided to open an office in Armenia to take advantage of the time difference to work around the clock

Key areas for development

- Increase number of senior level professionals
- Create favourable conditions to attract talent from abroad
- Develop more office spaces
- Decrease regulations for IT startups and introduce more tax incentives for companies

Angel Investor Club of Armenia (AICA) (based on interviews)



Description

AICA is business angels network that currently has more than 45 investors, mainly from the US. Some of the investors are not Armenians

Key advantages

- Cost efficiency
- Low valuation of startups
- Ecosystem already in place

Why Armenia

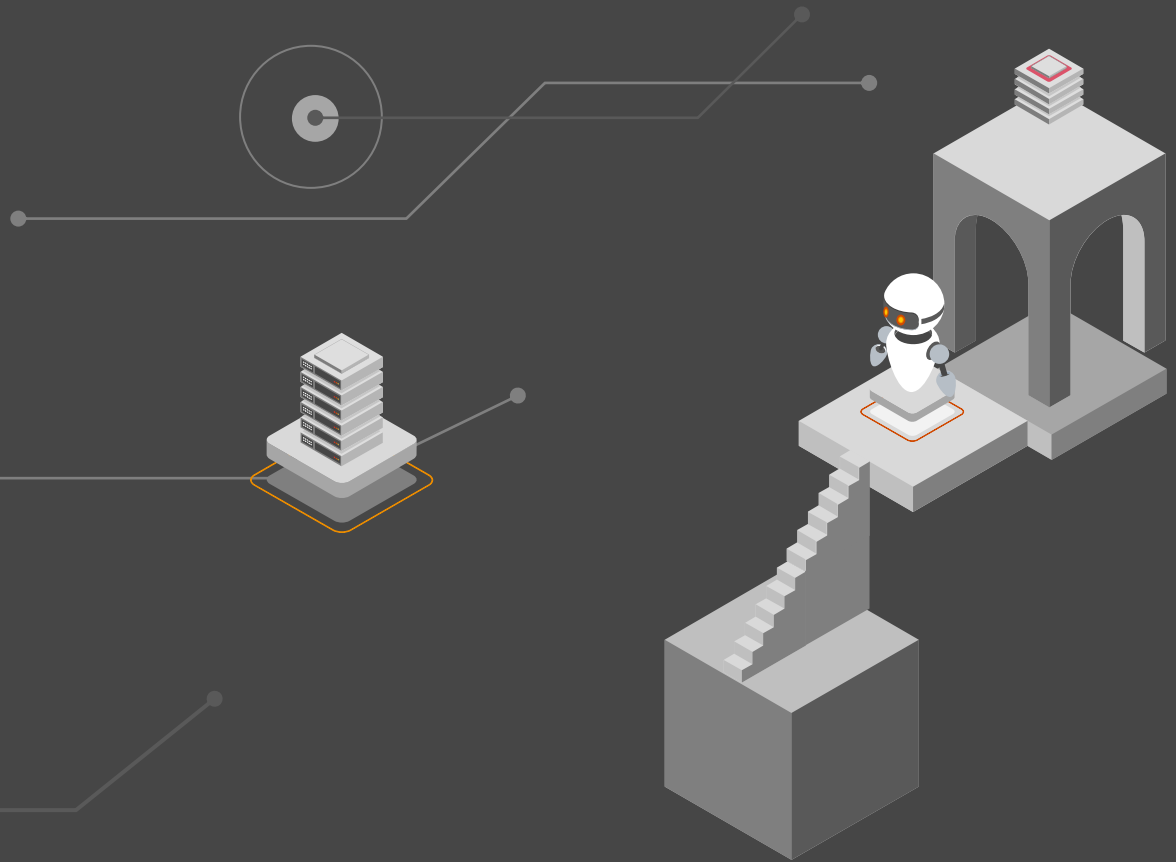
- Investors are looking for trust and a return on investment that is higher than in developed markets. Credentials work well in the Armenian market, as people in the ecosystem know each other
- The market is developing fast

Key areas for development

- Attract more educational investors and development of mentorships and advisors
- Improve tax environment by creating more incentives
- Fewer regulations for startups

Thank you

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