



**Joint Report by the Office to the President  
of the Republic of Armenia and UNCTAD**

# **ARMENIA**

**INVESTMENT PROMOTION STRATEGY IN TIMES  
OF THE GLOBAL CRISIS AND BEYOND**





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United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/DIAE/PCB/2020/2

eISBN: 978-92-1-005388-4

## Preface

In November 2019, the United Nations Conference on Trade and Development (UNCTAD) published an Investment Policy Review (IPR) of Armenia, following a request of His Excellency the President, Mr. Armen Sarkissian. Based on the country's efficiency profile, characterized by a well-educated workforce, a strong skills heritage, competitive salary levels and market access to key trading blocks, the IPR identified several export and efficiency-seeking industries that could aim for billion-dollar export sales in the next 10 to 20 years. It also provided recommendations meant at removing key obstacles to investment in those sectors, as part of a long-term strategy for promoting and benefiting from foreign and domestic investment.

In the few months since the IPR was published, the Coronavirus disease (COVID-19) epidemic has turned into a pandemic crisis that is altering the world economy and will continue to do so for the years to come. COVID-19 poses a number of threats and policy challenges to all economies, ranging from the shocks to the health system, the disruption of local and international production and distribution networks, the collapse of domestic and global demand, and the resulting rise in unemployment, debt and macroeconomic instability. The pandemic has also severely impacted on the operations of multinationals, trade and foreign direct investment (FDI) flows. Trade has been hit by simultaneous supply, demand and trade cost shocks, resulting in the sharpest and deepest contraction in a generation. FDI flows are also slowing dramatically. The latest estimates project a decline of 30 to 40 per cent in global flows during 2020–2021, the lowest level of the past two decades (UNCTAD, *World Investment Report 2020 – International Production Beyond the Pandemic*, June 2020). Because of the integrated nature of trade and investment, especially in global supply chains, declining FDI could have knock-on effects on trade, and vice versa.

In line with the vision set forward for the country to make Armenia a worldwide hub for innovation, ever more relevant in the context of the current crisis, this joint report, at the request of President Sarkissian, aims to assist the authorities in identifying priority actions to contain divestment and support new and existing investors, based on the comparative advantage in high-tech, software and engineering activities, with a special focus on artificial intelligence (AI), data science and deep technology, as well as food safety and security.



PRESIDENT OF THE  
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## Introduction

Armenia's economy is highly dependent on international demand for goods and services. The pandemic crisis is likely to have a significant impact on exports to key markets, including the Eurasian Economic Union (EAEU) and the European Union (EU). FDI inflows have already been on a declining trend since 2008 and a “wait-and-see” attitude associated with the recent political transition prevailed among investors before the explosion of COVID-19. Unless prompt actions are taken, FDI flows risk flattening and divestment, already an issue in some sectors, may extend to others. In this context, more than ever, promising sectors cannot be sustainably developed solely based on Armenia's existing efficiency profile – modernizing investment is required and policy actions needed to reassure existing investors.

To follow up on the IPR and based on the analysis and information gathered for its preparation, in this report UNCTAD and the Office to the President of Armenia make observations and recommendations to provide the pointers of a strategic approach utilizing investment policy tools to overcome some of the threats posed by the COVID-19 crisis. The priority actions identified focus on measures and tools that Armenia could adopt fast to mitigate the impact of the crisis on investment flows and the economy.

## Priority Actions

### 1. Establish a Quick Investor Response Taskforce

Armenia is significantly under-promoted to international investors. *Business Armenia*, the investment promotion agency (IPA), was recently dissolved, as part of a Government-wide streamlining programme. *Business Armenia*'s functions were to be absorbed by the Ministry of Economy, but the institutional arrangements for investment promotion had not been settled at the time of finalizing the IPR. The Review recommended that whatever the institutional shape of investment promotion, the functionality should meet certain tests, such as:

- Visibility and accessibility;
- Adequate provision for four key roles – promotion, facilitation, aftercare and advocacy;
- Control of national branding;
- Coordination within ministries and with industry initiatives;
- No regulatory or incentive powers;
- Separation of investment and export promotion functions.

IPAs are key agents in the economic fight against the consequences of the pandemic (box 1), and the IPR recommendations in this area, more relevant than ever, should be pursued as soon as feasible. The COVID-19 pandemic and its foreseen economic impact also call for the immediate adoption a more urgent and flexible institutional investment promotion arrangement: a “Quick Investor Response Taskforce” (QIRT). Composed of a small number of high-level government officials from the ministries in charge of key economic sectors, as well as industry experts with private sector background, the QIRT should be placed at the highest level of Government and act in close cooperation with economic partners, including in the framework of presidential initiatives. It would complement the emergency business support measures adopted by the Government and should be tasked with three main functions: 1) investment retention, re-investment support and re-orientation of existing investment; 2) strategic investor targeting; and 3) strategic partnerships.

Its mandate and operations should be reviewed periodically for the entire duration of the pandemic. The need to target export promotion may also be considered. The functions of the QIRT may continue after the situation regarding the pandemic is stabilized.

In this context, the Armenian National Interests Fund (ANIF) can also provide support, being a foreign direct investment fund operating under the Government of Armenia. ANIF's mission is to generate sustainable returns to facilitate Armenia's economic development, capital growth and income generation, to create and deliver value in the long term and bolster an economic transformation and advance Armenia's communities across generations. Given its mandate of being a proactive investor and partner in the region to generate and facilitate investments in crucial sectors of the economy and infrastructure, it could co-invest alongside top global investors and industrial partners in large-scale projects in the country.

In its *investment retention* role, the QIRT would engage in a dialogue with key domestic and foreign investors. The aim is to identify policy support measures to assist them overcome the economic shock associated with the COVID-19, retain their investment in Armenia, or help them in converting local production towards goods and services that may directly be needed during the pandemic (e.g. the production of sanitizing equipment, masks and protective gear, or medical and pharmaceutical items). The QIRT should be enabled to move fast and offer tailored solutions as well as customised assistance packages, including fiscal, financial or other incentives, as may be opportune to perform its retention role. All assistance packages negotiated by the QIRT should be temporary in nature, targeted at supporting investor retention and re-investment as well as at re-orientating/re-purposing investment towards COVID-19-related production (box 1).

For the strategic investor-targeting function, the QIRT should identify a Principal to lead investment promotion in each key industry targets, including the priority sectors identified in the IPR and the activities discussed in the last section of this note. The Principal would be the authorised government official within the QIRT to lead and coordinate investment promotion. Since each target industry has a different set of promotional needs, the Principal should be required to develop and implement a industry-specific short action plan for meeting the targets and challenges. Each action plan should include:

- the identification of target companies and investors;
- the outreach strategy, including for the diaspora;
- coordination arrangements with other government entities concerned with the industry;
- mechanisms for engagement with local business.

The *strategic partnership* role assigned to the QIRT involves high-level networking with key trading partners, development partners, international financial institutions, non-governmental organizations, the diaspora and private equity groups. This should be targeted at securing support for Armenia in accessing markets, developing assistance, and establishing strategic alliances that can help the country to position its products and services (including the digital services discussed in the following sections). Special attention should be paid to major capital-exporting countries that have no Armenia diaspora, meaning the Asian leaders in particular.

A special role in the implementation of the above initiatives is reserved to the diaspora, which is Armenia's key competitive advantage.<sup>1</sup> A list by the Ministry of Diaspora identifies 108 business leaders across 20 countries as belonging to the Armenian diaspora. This presents special opportunities for investor targeting and strategic partnerships. Pro-active targeted promotion intended for the diaspora and direct contact with industry insiders could be especially beneficial for high-tech and innovation activities (as discussed in the sections below), and also in pharmaceuticals, education, wine, food processing and fashion.



## Box 1. COVID-19 responses by investment promotion agencies

Investment promotion agencies (IPAs) and ministries dealing with investment promotion and facilitation have reacted rapidly to the COVID-19 pandemic. Even if an increasing number had to close their offices, 64 per cent of IPAs surveyed by UNCTAD (between 23 March and 3 April 2020) responded to the pandemic by continuing to serve clients through online tools. Several IPAs have opened dedicated information portals to sensitize businesses on the Government support mechanisms. For instance:

- *Invest India* created a comprehensive Business Immunity Platform and developed a Business Continuity Planning toolkit. The aim is to inform investors and businesses on COVID-19-related developments with daily updates, share information on health and business-related responses by Indian companies, deliver webinars, and reply to online inquiries from businesses.
- *APEX Brazil*, an agency that promotes investment and trade, lists online COVID-19-related measures for businesses. It has dedicated a platform with a COVID-19 market intelligence tool that gives economic and trade updates by sector, a model action plan for businesses in crisis as well as tools and checklists for exporters.
- The Ministry of Investment of Saudi Arabia set up a COVID-19 Response Centre with a frequently asked questions window and an online COVID-19 Business Continuity Guide.
- The *Australian Trade and Investment Commission* is organizing webinars for companies on the effects of the virus on Australian-based businesses.
- *Invest in Denmark's* website offers an array of COVID-19 related information for businesses, including government support measures and links.

IPA are also finding new ways to continue service investors during these challenging times. Several of them have reallocated resources towards helping investors to continue their operations, by adopting a specific support and investment retention focus, or by supporting industrial reconversions to supply pandemic-related appliances. Examples include:

- *Invest in Estonia* and Switzerland's *SECO SME* have created a chat box for businesses and investors, which provide information on aid packages and offer cooperation with businesses to fight the COVID-19-related challenges.
- *Germany Trade and Invest* developed a COVID-19 special window with information on economic developments, updates on government measures for business and industry, and organizes online seminars on new developments, including on the novel "fast-track programme" for medical applications to respond to the growing demand for digital solutions in the German healthcare system.
- *Invest Italia* has adopted a novel approach. During the crisis, the IPA is responsible for managing the *#CuraitaliaIncentivi* initiative. It grants incentives to companies to temporarily transform or extend their production towards medical and individual protection devices to fight the pandemic. Requests for incentives are submitted through Invest Italia's online platform. The number of approved requests is monitored every hour and available on the website.

Source: UNCTAD (2020). *Investment Promotion Agencies: Striving to Overcome the COVID-19 challenge*, The IPA Observer, Special issue 8, April.

The QIRT should not work alone, as investment promotion is a shared responsibility to be coordinated within Government and with industry. ANIF may also be well positioned to contribute to this function. Their action should supplement and complement the efforts and expertise of other ministries and industry associations. For example, mining and energy specialists are usually well equipped to structure and present investment opportunities and will always be the first port of call for investors. On the other hand, some ministries, such as education and health, generally have little investment promotion expertise. They should welcome professional assistance. Armenia's Ministry of Foreign Affairs has a well-meaning attempt to promote education through a website – "Study in Armenia" – but it lacks the impact that professional help from a specialist operation would provide.

It will also be important, after the emergency phase and the establishment of the full investment promotion unit that the IPA does not retain regulatory or incentive powers.

## 2. Promote eGovernment

There are many ways to adopt and strengthen eGovernment platforms and help countries address the challenges associated with the pandemic (box 1 contains examples from IPAs). Online business facilitation tools can promote business continuity during the containment and confinement phase by ensuring a smooth running of the interface between businesses and the public administration. This includes leveraging on IT platforms to facilitate permits and approvals for business establishment, operation and trading procedures, and also safeguarding supply chain continuity through the efficient functioning of the customs, while applying appropriate COVID-19 preventive measures. eGovernment solutions can also be deployed to implement COVID-19-related fiscal rescue measures, such as the administration of social security for temporarily retrenched workers or the processing of business grant requests. In March 2020, for instance, Benin, with the assistance of UNCTAD, turned its business registration processes 100 per cent digital. This critical move, just before the spike in the number of global infections from the Coronavirus, means that businesspeople can open a company in under two hours, from the safety of their home or office. During the first week of closure, 182 businesses were created online.<sup>2</sup>

Reforms have been implemented in the e-Government system of Armenia since its creation. They have had a positive impact on the development of electronic document circulation systems, electronic registry for registering businesses, e-cadastre, electronic payments, online budgeting, electronic licensing, online government applications, online reporting to tax authorities, electronic photo galleries and identification cards. As regards business facilitation, through the UNCTAD's eGovernment programme - eRegistrations launched in June 2018 with the assistance of UNDP and funding from the Government of Austria - 10 key business procedures have been fully mapped and listed online, including all requirements for starting a business, obtaining residency, registering intellectual property and other property rights.

At the same time, Armenia should continue expanding eGovernment services by following the examples of Estonia, Singapore (box 2) and Rwanda. Beyond the positive impact on the investment climate, particularly in the context of COVID-19, the adoption and expansion of eGovernment solutions constitute an opportunity for the Armenian high-tech industry to develop expertise in the provision of services and solutions that can be then exported to the region and beyond.

Efforts to accelerate the digitisation of trade can also create opportunities for micro, small and medium-sized enterprises (MSMEs) by further lowering trade costs and helping them overcome disrupted supply chains. They can allow them to tap into a wider range of international buyers and suppliers, and to more easily manage end-to-end interactions. Adopting advanced digital solutions will also help MSMEs become more resilient to future

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