



EUROPEAN CLUSTER
COLLABORATION PLATFORM

Country factsheet

Armenia

An initiative of the European Union





Contents

1. Introduction and economic policy context	4
2. National cluster policy, programmes and initiatives	6
3. State of cluster policy	11
References	14
Annex.....	15



01

Introduction and economic policy context



EUROPEAN CLUSTER
COLLABORATION PLATFORM

Strengthening the European economy through collaboration



1. Introduction and economic policy context



This document presents an overview of the cluster policy in Armenia. Given the importance to contextualise the cluster policies (and related) analysed in the factsheets, a comprehensive outlook of the country in socioeconomic terms can be consulted in the [World Bank ECA Economic Update Spring 2023](https://www.worldbank.org/en/country/armenia/overview).

Armenia is a country still recuperating from the disastrous 2020 Nagorno-Karabakh War with Azerbaijan, a conflict that illustrated its precarious geopolitical position. Moreover, Armenia has recently faced a significant challenge with the arrival of more than 100,000 displaced Armenians from Nagorno-Karabakh in September 2023, what presents an immediate challenge in addressing urgent humanitarian needs, including shelter, food, healthcare, and psychological support.¹ Following the Russian military aggression against Ukraine, Armenia finds itself in an even more precarious situation, as sanctions to punish Russia, have also indirect effects on the economies that have close economic relations with Russia, especially on members of the Russian-led Eurasian Economic Union. Thus, the already struggling economy of Armenia, which is heavily dependent on Russia, is significantly affected.

In the following, a succinct overview of the cluster policy in Armenia will be provided. The structure - of this factsheet generally encompasses:

- 1) an overview of the Armenian broad policy which provide policy interventions for the development of clusters in Armenia,
- 2) an assessment of the state of play of the national cluster policy.

¹ <https://www.worldbank.org/en/country/armenia/overview> (last access 02.11.2023)

02

National cluster policy, programmes and initiatives



EUROPEAN CLUSTER
COLLABORATION PLATFORM

Strengthening the European economy through collaboration



2. National cluster policy, programmes and initiatives




In this section we provide an overview of the existing Armenian cluster policies on a national level. Armenia does not have any dedicated cluster policy. The cooperation between companies, SMEs, industries, researchers and knowledge providers and other actors is enhanced through creation of Free Economic Zones (FEZ). The breakdown is presented in the form of a table, with the first column showcasing information on the aspects which constitute the policy (beginning with 'Policy Objectives', following with 'Policy Focus', etc.). The second column represents the case of Armenia's FEZ policy, as this policy promotes cooperation between the actors involved and there is no other national policy that addresses the creation and development of clusters in the country.

Within the table the text presented in bold (black) depicts standardised categories across country factsheets (56 in total for 2023), which is applied for the comparative purposes. This is followed by a complementary descriptive text to provide more insights about the cluster policy in Armenia.

Table 1: Overview of Armenian cluster-related policy

Policy type:	Broad Policy
Policy name:	Free Economic Zones ("FEZ")
POLICY OBJECTIVES 	<p>Strengthening cooperation between companies or industry and RTDI actors</p> <p>Increasing competitiveness and boosting scale up of SMEs</p> <p>Supporting internationalisation activities</p> <p>Fostering R&D activities, technology development and implementation</p> <p>Fostering innovation and strengthening innovation ecosystems</p> <p>Promoting entrepreneurship, start-ups and spin-offs</p> <p>Promoting employment and upgrading skills and competences</p> <p>Connect to global supply chains</p> <p>As stated in the website of the Ministry of Economy of Republic of Armenia, the main goals of the Free Economic Zones are: (1) to contribute to growth of export volumes from Armenia; (2) to create new workplaces; (3) to ensure sustainable economic development through integrating foreign direct investments and introducing new and advanced technologies to the production cycle. Similarly, to clusters, FEZ are characterised by geographical concentration of enterprises and organisations engaged in economic activities in the same industry or in related industries. Each FEZ has a specific focus and accepts members that operate in a particular industry or in related industries. FEZ members are encouraged to cooperate in their activities.</p>



Policy type:	Broad Policy
Policy name:	Free Economic Zones ("FEZ")
POLICY FOCUS 	No specific focus The policy does not focus on any particular sector.
RESPONSIBLE AUTHORITIES 	In charge of drafting In charge of implementation Oversees the implementation <p>The operation of FEZ is ensured through an appropriate legal framework. The main document which regulates the establishment and activities of FEZ is the Law of the Republic of Armenia "On Free Economic Zones". The Law was adopted on May 25, 2011 by National Assembly of Armenia.</p> <p>The Government of the Republic of Armenia (1) implements state policy on FEZ; (2) issues a decree on establishing a FEZ; (3) carries out the selection process of FEZ Operator pursuant to Law "On Procurement" of the Republic of Armenia and applies competitive dialogue method; (4) accepts applications for establishing FEZ on private initiative and creates permanent Interagency Committee to evaluate the bids for becoming FEZ 'Operators' and 'Residents'.</p> <p>FEZ Operator is either selected by the Government through the Law "On Procurement", or, if FEZ is created by initiative of a Private Initiator, the Initiator is recognized by the Government as FEZ Operator. FEZ Operator enjoys the benefits of the FEZ and is accountable in front of the Government for FEZ operation. FEZ Residents are members of the FEZ; they enjoy the benefits of the FEZ but are not accountable in front of the Government for the overall FEZ operation. In order to become FEZ Residents, legal actors should obtain permission from the Government and sign a contract with FEZ Operator.</p> <p>The Ministry of Economy on behalf of the Government: (1) signs an agreement with the selected Operator and controls the execution of the contractual obligations; (2) makes decisions to grant permissions for becoming FEZ Resident; (3) provides permission certificates and carries out control over the requirements specified by the FEZ Resident permission. The Department of Investment attraction and coordination of the Ministry of Economic Development and Investments of Armenia oversees the activities of Armenian free economic zones.</p>
BENEFICIARIES 	SMEs Research organisations Start-ups Large firms Technology centres



Policy type:		Broad Policy
Policy name:		Free Economic Zones ("FEZ")
		<p>The following two types of entities can become FEZ residents and thus beneficiaries of the initiative:</p> <ul style="list-style-type: none"> all types of commercial enterprises; all types of individual entrepreneurs.
INSTRUMENTS 	Financial	<p>Others: FEZ organisers and FEZ residents benefit from full exemption from VAT, profit tax, corporate income tax, customs duty, property tax.</p> <p>All abovementioned exemptions are valid for the full period of functioning of FEZ.</p>
	Technical assistance	Support for networking and partnership building (at national and/or international level)
	Explanation	The Free Economic Zones policy prioritises strongly on financial instruments, while non-financial benefits derive from FEZ operation and are often initiated by FEZ Operators and FEZ Residents themselves ² .
HISTORY 	Period	Unlimited period
	Ending year <i>(for policies with limited period)</i>	Not applicable
	Starting year	2011
	Explanation	Each FEZ is initially set up for a certain period of time (10 to 50 years, depending on the agreement between the FEZ organiser and the

² The Law of the Republic of Armenia "On Free Economic Zones" is the basic regulatory document of FEZ. Aimed at providing tax and customs preferences prescribed by this Law, relevant amendments have also been introduced to:

- Law of the Republic of Armenia "On Value Added Tax" (VAT)
- Law of the Republic of Armenia "On Income Tax"
- Law of the Republic of Armenia "On Profit Tax"
- Law of the Republic of Armenia "On Property Tax"
- Law of the Republic of Armenia "On Currency Regulation and Currency Control"
- Law of the Republic of Armenia "On Licensing"
- Law of the Republic of Armenia "On State Due"
- Law of the Republic of Armenia "On Types of Activities Subject to Licensing in the Territory of Yerevan 'Zvartnots' Airport and 'Yerevan' Free Economic Zone"
- Customs Code of the Republic of Armenia.



Policy type:		Broad Policy
Policy name:		Free Economic Zones ("FEZ")
BUDGET 		Ministry of Economy of the Republic of Armenia). The FEZ initiative itself does not have an ending year.
	Overall	Information about the budget is not publicly available
	Annual	Information about the budget is not publicly available
	Source of funding	The Government of the Republic of Armenia supports the operation of FEZ by indirect means, through granting FEZ with exemptions from VAT, profit tax, corporate income tax, customs duty and property tax. The activities of the FEZ are directly funded by FEZ operators and residents.
POLICY EVALUATION 	Availability	No policy evaluation
	Results	No evaluation of FEZ has been identified
POLICY ALIGNMENT WITH THE EU PRIORITIES 		Resilience

Source: ECCP (2023).



03

State of cluster policy



EUROPEAN CLUSTER
COLLABORATION PLATFORM

Strengthening the European economy through collaboration



3. State of cluster policy

This section presents an overview on the state of play of Armenian cluster policy in the form of a qualitative assessment across four categories of analysis – policy scope, continuity of cluster policies, evidence of performance, and the range of cluster support instruments. Please refer to the **Annex** for the detailed overview of the categories and the scoring system. The table below presents an overview of the **state of play of cluster policy for Armenia** for 2023.

Table 2: State of play

Armenia	State of play
POLICY SCOPE	Absence of cluster policy
	Broad policy
	Sectoral policy
	National and/or regional cluster policy
CONTINUITY	No cluster-specific policy available
	Cluster policy established recently
	Cluster policy established between over 2 and 10 years
	Cluster policy established over 10 years ago
EVIDENCE OF PERFORMANCE	No evaluation and / or monitoring available
	Existence of evaluations of past policies
	Existence of monitoring or an ongoing / interim evaluation
	Existence of monitoring and ex-ante or ongoing / interim evaluation
CLUSTER SUPPORT INSTRUMENTS	No instruments for cluster development
	Financial support for cluster development in the broader and / or sectoral policy
	Financial or technical support for cluster development in dedicated cluster policy
	Financial and technical support for cluster development in dedicated cluster policy

Source: ECCP (2023).

The text below provides a **qualitative description** of the state of play of the cluster policy in Armenia.

Policy scope

There is absence of cluster policy in Armenia, but policy of Free Economic Zones enhances cooperation between participating actors with the aim to increase export volumes, create new workplaces, and ensure sustainable economic development. FEZs are similar to clusters as they are characterised by geographical concentration of enterprises and organisations engaged in economic activities in the same industry or in related industries and their members are encouraged to cooperate in their activities.



Continuity

Since 2002, the Small and Medium Entrepreneurship Development National Centre of Armenia (SME DNC of Armenia) has been in action. This national body implements state support to small and medium-sized enterprises (SME) and programmes directed towards their development, as well as facilitates links between SMEs and other state support organisations.

A sector-specific initiative was the establishment of the Enterprise Incubator Foundation (EIF) in 2002 within the framework of the World Bank's "Enterprise Incubator" project. The main mission of EIF is to support the development of ICT sector in Armenia through the creation of a productive environment for innovation, technological advancement, and company growth.

In 2016, the Action Plan 2017 of the Armenian Government was adopted, which is directed towards fostering university-research cooperation via creation of networking universities and scientific-educational clusters.

While the abovementioned initiatives also have the cooperation component among their goals, FEZ policy was selected for this factsheet due to its broader nature and more direct focus on cooperation among participating actors.

The basic regulatory document of FEZ is the Law of the Republic of Armenia "On Free Economic Zones" adopted on May 25, 2011, by National Assembly of Armenia. The policy has been ongoing since 2011 without any reported gaps. The first Armenian FEZ "Alliance" was launched in 2013. The second FEZ, "Meridian", was launched in 2015. The planned duration of both abovementioned FEZ is 10 years. In 2017, "Meghri" FEZ was launched, the duration of which is 50 years. In 2018, ECOS FEZ was set up with planned duration of 25 years.

Evidence of performance

Since there is no dedicated cluster policy in Armenia, no evaluation is available. The evaluation of the FEZs has not been carried out yet.

Cluster support instruments

In Armenia, there has been strong policy development in recent years targeted at innovation, research, and technology development. However, there is currently no cluster policy in the country and there is still no support or funding mechanism established on national level to support cluster development. Cluster development is only indirectly fostered through creation and support of FEZ. FEZ organisers and FEZ residents benefit from full exemption from VAT, profit tax, corporate income tax, customs duty, property tax and they provide support for networking and partnership building (at national and/or international level).

Cross-regional / international cooperation

Armenian clusters are not involved in any European Strategic Cluster Partnership and no cluster organisation is participating in the INNOSUP-1 initiative. However, in May 2016, Armenia became an Associated Country to the Horizon 2020 programme, which has given Armenian researchers and innovators full access to the programme's funding. Research and development cooperation with the EU has significant importance for Armenia and Horizon 2020 is one of the major programmes helping to boost its research sector. Armenia also became a fully associated member to Horizon Europe on 11 February 2022 after the Association Agreement has been signed on 12 November 2021. This marks a positive continuation in the Research and Innovation cooperation between the European Union and Armenia³.

³ European Commission. 2022. Research and Innovation: Armenia-Policy background. Available at: https://research-and-innovation.ec.europa.eu/strategy/strategy-2020-2024/europe-world/international-cooperation/armenia_en

References



EUROPEAN CLUSTER
COLLABORATION PLATFORM

Strengthening the European economy through collaboration



References

European Commission (2022). Research and Innovation: Armenia-Policy background. Available at: https://research-and-innovation.ec.europa.eu/strategy/strategy-2020-2024/europe-world/international-cooperation/armenia_en (last accessed 22.11.2023)

Inno Tsd (2017). EaP Plus: Review of the state of development of clusters in EaP countries. Available at: <https://s3platform.jrc.ec.europa.eu/en-US/w/review-of-the-state-of-development-of-clusters-in-eap-countries> (last accessed 22.11.2023)

Inno Tsd (2019). EaP Plus. Cluster development in the EaP countries: overview of project work and policy recommendations. Available at: www.eap-plus.eu/object/news/299/attach/Krisztina_Dax_Cluster_development_in_the_EaP_countries_overview_of_project_work_and_policy_recommendations.pdf (last accessed 22.11.2023)

JRC (2017). Review of the state of development of clusters in EaP countries (France, Germany, Poland, Romania, Hungary, Armenia, Belarus, Moldova, Ukraine). Available at: <https://s3platform.jrc.ec.europa.eu/en-US/w/review-of-the-state-of-development-of-clusters-in-eap-countries> (last accessed 22.11.2023)

Ministry of Economy of the Republic of Armenia. Free Economic Zones Presentation. Available at: www.mineconomy.am/media/6785/b.pdf (last accessed 22.11.2023)

Ministry of Economy of the Republic of Armenia. Free Economic Zones in Armenia bulletin. Available at: www.mineconomy.am/media/6784/a.pdf (last accessed 22.11.2023)

Ministry of Economy of the Republic of Armenia. Free Economic Zones in Armenia. Available at: www.mineconomy.am/en/page/255 (last accessed 22.11.2023)

UNESCO Institute for Statistics. Data for Sustainable Development Goals – Armenia. Available at: <http://uis.unesco.org/country/AM> (last accessed 22.11.2023)

Website of ECOS Free Economic Zone. Available at: <https://fez.ecos.am/#:~:text=The%20ECOS%20Free%20Economic%20Zone,innovative%20technological%20products%20and%20services.&text=Ecosystem%20infrastructure%20ECOS%20is%20a, and%20developing%20new%20business%20models>. (last accessed 22.11.2023)

The World Bank. The world bank in Armenia. Available at: <https://www.worldbank.org/en/country/armenia/overview> (last accessed 02.11.2023)

Евразийский банк развития, Дирекция по аналитической работе, Центр интеграционных исследований (2019). Состояние кластерного развития в государствах – участниках ЕАБР. (Centre of Integrational Research of the Eurasian Development Bank (2019). Situation study of cluster development in the member states of the Eurasian Development Bank.) Available at: https://eabr.org/upload/iblock/cca/EABR_Clusters_07_2019.pdf (last accessed 22.11.2023)



Annex

Table 3: Analytical framework for the state of cluster policy

Criterion	Description	Categorical variables
Policy scope	assessment whether the country has a dedicated cluster policy, or cluster creation and/or development is targeted through broader policies, e.g. foreign trade policies, labour and social policies or specific sectoral policies, e.g. industrial policy tourism policies, agriculture policies	absence of cluster policy existence of broader policies existence of specific sectoral policies existence of targeted cluster policies
Continuity of cluster policies	assessment of the duration and experience of the country in carrying out cluster policies. This criterion assesses only existence of targeted cluster policies and not broader policies or sectoral policies	absence of policies supporting cluster development cluster policy established recently (within the last 2 years) cluster policy established between over 2 and 10 years cluster policy established over 10 years ago
Evidence of performance	assessment whether there are evaluations of past and ongoing policies and a monitoring system in place. The existence of monitoring and evaluation mechanisms determines the degree of policy development in the country	no evaluation and / or monitoring available existence of evaluations of past policies, e.g. ex-ante existence of monitoring or an ongoing / interim evaluation existence of monitoring and ex-ante or ongoing / interim evaluation
Cluster Support Instruments	assessment whether the policies provide any instruments to support the policy implementation, being these financial and/or technical support	no instruments for cluster development financial support for cluster development in the broader and / or sectoral policy financial or technical support for cluster development in dedicated cluster policy financial and technical support for cluster development in dedicated cluster policy

Source: ECCP (2023).