NEWSLETTER

German Economic Team

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Tapping the potential related to the inflow of foreign IT talent

The substantial inflow of foreign IT professionals in the recent past offers a considerable potential to accelerate the development of Armenia's and Georgia's IT industry. In the short term, the most promising opportunities for both countries relate to fast-tracking and integrating company relocation projects in the IT ecosystem generating spillovers. In comparison, the start-up and the recruitment potential for local companies seem to be limited. In both countries, a comprehensive approach is needed in terms of geographic focus and scope of policy tools. The policy response should combine short-term initiatives – such as widening the scope of facilitation and matchmaking formats – with long-term measures including collaborative educational and training programmes. In particular in Georgia, adequate attention needs to be paid to strengthening the comparatively young IT ecosystem to absorb spillover effects.

Substantial inflow of IT talent in both countries
Official statistics and surveys confirm a substantial inflow of IT professionals both in Armenia and Georgia. Based on government statistics, GET estimates that since 24 Feb 2022 approximately 55,000 citizens from Russia and Belarus have relocated to Armenia, and about 100,000 to Georgia. Surveys carried out among the relocated citizens by CRRC on behalf of GET indicate a high skill and employment level. In both countries, about three quarters of the respondents are employed. ICT plays a leading role accounting for a share of employment of 37% in Armenia and 44% in Georgia.

Potentials for the development of the IT industry
In principle, an inflow of IT talent can be leveraged in different ways to accelerate the development of the IT industry in a country. It can be used to attract and scale up relocation and (re)investment projects generating

Opportunities to leverage the inflow of IT talent

Source: own display

spillovers. Another opportunity relates to promoting entrepreneurship and start-ups in the relocated IT community. Furthermore, by facilitating the recruitment of foreign IT talent, the competitiveness of local companies can be strengthened fostering knowledge transfer.

Chances to scale up and attract (re)investments
As confirmed by the interviews with IT companies and experts, fast-tracking the implementation and integration of relocation projects in the IT ecosystem offers the most promising potential in the short term in both countries. The majority of IT professionals moved to Armenia and Georgia as part of company relocations. Those can make an important contribution towards skills development and innovation dynamics. IT-related FDI-activities already started to increase some years ago, first in Armenia, then slightly later in Georgia – fuelled amongst others by the introduction of the "International Company" scheme in 2020. In the context of the war in Ukraine, relocation dynamics have accelerated. A substantial part of relocations from Russia is carried out by Western investors.

Employer of relocated IT professionals

	Armenia	Georgia
Transnational corporation	33%	11%
Russian company	24%	30%
Local company	20%	2%
Other foreign company	12%	19%
Freelancer / self-employed	9%	29%
Refuse to answer / don't know	2%	8%

Sources: CRRC-Armenia, CRRC-Georgia, German Economic Team (GET)

To retain and scale up existing projects and to benefit from spillovers, linkages need to be strengthened. The interaction between foreign investors, which have also relocated most of their staff, and the local IT communities is still rather limited. This applies in particular to Georgia, as the IT ecosystem is smaller and at an earlier stage of development compared to that in Armenia. Further challenges pointed out in this context relate to the current visa regime in Georgia, which is not offering a long-term perspective for the relocated IT specialists. Due to Armenia's membership in the Eurasian Economic Union, visa-related issues are of less relevance. The shortage and high prices of office and residential space were listed as the bigger concerns here. In both countries, foreign IT companies and specialists are still facing difficulties with administrative procedures and onboarding issues in some cases.

Limited start-up and recruitment potential

In comparison, the start-up and recruitment potential seem to be limited in both countries – at least in the short term. According to the interviews, the majority of relocated start-ups and aspiring entrepreneurs do not have scalable business models or ideas. The expectation prevails, that a significant part of IT freelancers and start-ups might move on to other countries. The local interview partners also expressed cautious views on the recruitment potential. The majority of foreign IT specialists moved to Armenia and Georgia as part of relocations and is – at least currently – not seeking employment in local companies. Furthermore, salaries offered by relocated companies tend to be higher.

Relevant international experience

Considering previous international experience, such an inflow of talent in relation to the size of the existing IT communities constitutes a rather unique and unprecedented development. Nevertheless, a number of relevant policy measures can be identified, which have been recently introduced by other countries aiming to attract and retain IT talent, start-ups and investment.

Overview of relevant policy measures

Visa and incentive programmes	A. Introducing dedicated visa programmes (digital nomad, freelance and IT visa)
	B. Designing tailored incentive programmes to attract and retain talent
Soft infrastructure (Information, matchmaking and support services)	C. Combining different incentives and policy tools with virtual IT parks
	D. Using structured and target-group-oriented aftercare programmes to retain and attract (re)investment
	E. Widening the scope of facilitation services to secure both investment and talent
	F. Promoting linkages between start-ups and the business and science community
Hard infrastructure	G. Developing specialised free economic zones (FEZs), industrial and technology parks

Source: own display

In the recent past, more complex measures are increasingly used combining different types of interventions. In this context, this applies to virtual IT parks (C.) and specialised zones and parks (G.). For instance, in the case of virtual IT parks, incentives are complemented by a special visa regime and networking services.

Recommended policy response

In principle, the findings indicate a promising potential to accelerate the development as IT locations for both countries. Tapping this potential requires a comprehensive approach – in terms of geographic focus and scope of policy areas / tools – to improve and promote the countries' value proposition. In particular in Georgia, it is critical to pay adequate attention to strengthening the IT ecosystem, which is still at an early stage of development. Otherwise, the ability to absorb the spillover effects will be limited.

In both countries, needs-oriented aftercare and facilitation services should form key elements of the policy response. Building upon existing initiatives, onboarding services should be extended and the scope of matchmaking formats should be widened to connect relocated companies and new investors with the local IT community. Collaborative educational and training programmes should form further core elements of the policy response in both countries.

Considering the country-specific context, those common core elements should be complemented in Armenia by the development of specialised tech parks based on thorough feasibility studies and a clear division of roles between the public and private sector. In the case of Georgia, a complementary focus of the policy response should be on introducing a dedicated IT residence permit providing a reliable pathway for foreign IT talent to stay in the country and covering both employed IT specialists and freelancers.

This newsletter is based on the Policy Briefings "Policy measures to tap the potential of relocations of foreign IT companies and talent" to Armenia and Georgia.