

# 10 Years of Independence and Transition in Armenia



National  
Human  
Development  
Report

Armenia  
2001

## Team of Authors

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National Project Director **Zorab Mnatsakanyan**

National Project Coordinator-Consultant **Nune Yeghiazaryan**

---

### Chapter 1 **Mkrtich Zardaryan**, PhD (History)

**Aram Harutunyan**

**Khachatur Bezirchyan**, PhD (Biology)

**Avetik Ishkhanyan**, PhD (Geology)

**Boris Navasardyan**

**Ashot Zalinyan**, PhD (Economics)

**Sos Gimishyan**

**Edward Ordyan**, Doctor of Science (Economics)

---

### Chapter 2 **Ara Karyan**, PhD (Economics)

**Stepan Mantarlyan**, PhD (Economics)

**Bagrat Tunyan**, PhD (Economics)

**Narine Sahakyan**, PhD (Economics)

---

### Chapter 3 **Gyulnara Hovhanessyan**, PhD (Economics)

**Anahit Sargsyan**, PhD (Economics)

"Spiritual Armenia" NGO, **Anahit Harutunyan**, PhD (Philology)

---

### Chapter 4 **Viktoria Ter-Nikoghosyan**, PhD (Biophysics)

**Aghavni Karakhanyan**

Economic Research Institute of the RA Ministry of Finance & Economy, **Armenak Darbinyan**, PhD (Economics)

**Nune Yeghiazaryan**

**Hrach Galstyan**, PhD (Biology)

---

## Authors of Boxes

Information System of St. Echmiadzin

**Sergey Vardanyan**, "Spiritual Armenia" NGO

**Gagik Gyurjyan**, Head of RA Department of Preservation of Historical and Cultural Monuments

**Gevorg Poghosyan**, Armenian Sociological Association

**Bagrat Sahakyan**

Yerevan Press Club

"Logika", Independent Research Center on Business and Finance

**Arevik Petrosian, Aharon Mkrtchian**, Public Sector Reform Commission, Working Group on Civil Service Reforms

**Armen Khudaverdian**, Secretary of Public Sector Reform Commission

"Orran" Benevolent NGO

IOM/Armenia office

**Karine Danielian**, Association "For Sustainable Human Development"

Union of Information Technology Enterprises

"Strengthening National Capacities for Coordination and Monitoring of International Assistance" UNDP Project

**Seda Vermisheva**

---

Project Assistant **Anna Gyurjyan**

Translators **Aghassi Yesayan, Vladimir Osipov, Artashes Emin**

Editors **Aydin Morikyan** (Armenian), **Elizabeth Winship** (English)

Design and Cover Art by **Samvel Partamian**

# Foreword

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The National Human Development Report "Ten years of Independence and Transition in Armenia" is a result of rewarding and extensive work carried out with the sponsorship and under the auspices of the United Nations Development Programme.

We attach great importance to similar reports that are prepared by independent experts and view them as a support to the irrevocable commitment of the Armenian authorities to build a democratic and economically advanced state. Though the views expressed in the annual National Development Reports do not always coincide with the views of the authorities, these reports can raise constructive discussions and public debates, which in turn will contribute to a deeper understanding of the objectives and the actions of society and the State.

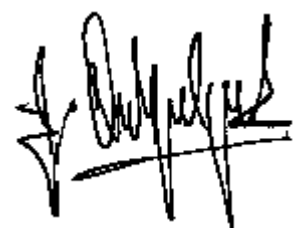
During the past decade almost all spheres of national life have undergone fundamental reforms. The in the economic and democratic domains these reforms resulted in the creation of a legislative framework and established prerequisites that enabled us to enter a qualitatively new phase of development. We know from our experience that political stability is a major boosting factor for a country in transition.

Armenia's aspirations on economic and social success are linked in the first place with the irreversible choice of democracy and the organization of the State, with the major emphasis placed on the deepening of international integration.

The results of reforms received high evaluation of the international community, as well as respective international organizations. At the same time, despite a considerable increase in economic indicators, there are issues that are still unresolved or require further settlement, particularly in such areas as taxation, energy, public services, and others.

Reform should also continue in the sphere of investment, education and health. I am convinced that the problems that Armenia has encountered are resolvable, albeit their complexity and multifarious nature.

I would like to commend the authors of the NHDR 2001 and those who have assisted in its preparation and congratulate them with the successful completion and making it a reality.



**Vartan Oskanian**  
*Minister of Foreign Affairs*  
*Republic of Armenia*

# Preface

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Independence and transition to a market economy posed serious challenges to almost all post-Communist countries throughout the 1990s. Armenia was not an exception, and its path to an economically sound democracy has been strewn with missed and grasped opportunities, predicaments of various nature along with windows for success. The year of 2001, which was particularly eventful for Armenia, was the corroboration of that development, meaningfully and symbolically integrating the "new" democracy with the centennial wisdom of this nation that was celebrating the 10th anniversary of its independence together with the 1700th anniversary of the adoption of Christianity as state religion. These same milestones were in the focus of the National Human Development Report (NHDR) 2001, dedicated to the ten years of Armenia's independence and transition.

National Human Development Reports are the fruit of a close cooperation between the Government, the United Nations Development Programme (UNDP) and the intellectual elite of the country. Prepared since 1995 in Armenia, by a group of independent national experts sponsored by UNDP and promoted by the Presidency of the Republic of Armenia, each NHDR presents a multitude of views and standpoints on a given topic, analyzes the situation in the country through human-centered approaches, and makes recommendations for the solution of the vicissitudes of transition.

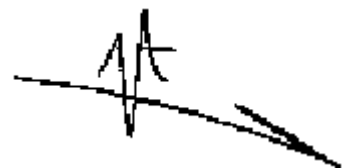
Initiated in 1990, the first Human Development Report (HDR) introduced the concept of 'human development' with a challenge to shift the world's attention to people as a means and an end of development. Since then, the HDRs have contributed, through analyses of global trends and policy recommendations, to shaping the new, human-centered thinking, presented alternative development scenarios, voiced the concerns of the people worldwide. They have been a source of knowledge, information and conceptual guidelines for NHDRs, which are prepared in more than 130 countries starting mid 90s.

The HDR 2001, entitled "Making New Technologies Work for Human Development," is again about people. It draws on the opportunities and threats that new technologies bear for people in the different parts of the world. One of the challenges, as the Report sees it, is "to help the countries identify the global and national policies and institutions that can best accelerate the benefits of technological advances while carefully safeguarding against the new risks that inevitably accompany them."<sup>1</sup> As in previous reports, the issues raised and concerns and challenges voiced relate to all the countries, regardless of their status, development and priorities.

Armenia's potential in information and communication technologies, as a proclaimed priority for the country's development, the globalization and integration trends that have become a reality today, the principles of good governance, reinforced by human development, have found their reflection in the NHDR 2001. The Report concentrates on the political, economic and social developments over the past decade. It also outlines the achievements and losses of this ten-year period of independence and transition, highlights the lessons learnt and gives recommendations on further steps. In this context, the selection of good governance as the underlying theme of NDHR 2001 is very pertinent, given that "good governance is perhaps the single most important factor for eradicating poverty and promoting development." The Report has made an attempt to view all these issues in mutual dependence, impacting the global outcome with the involvement of all the players.

The evaluations and recommendations may be debatable. We do hope, however, that they will provoke nationwide discussions on the ways and means for making Armenia a thriving democracy, where real political participation, transparency in the decision-making process and pro-poor development are ensured.

Committed to objectiveness, transparency and dialogue, the group of authors has seen its main task in compiling an informative and analytical document in the light of human development. The authors of the report have succeeded in meeting the challenge of presenting the picture of the country's accomplishments during the past ten years, providing for a diversity of approaches and visions. We value the authors' intellectual independence and professional integrity and the principle of participation and transparency of the entire process. I congratulate the group of authors on their successful completion of the NHDR 2001 and hope that it will contribute to Armenia's future.



**Joel Boutroue**  
*UN Resident Coordinator*  
*UNDP Resident Representative*

# Acknowledgements

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NHDR 2001 has benefited from the external consultation and in particular from the conceptual approaches and advice received from Mia Seppo, Program Specialist UNDP, RBEC/New York, Juliette El Hage, UNDP Bratislava, and other colleagues.

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The Project would like to specify the invaluable input of the IOM Armenia office, RA Department of Preservation of Historical and Cultural Monuments.

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Thankful for all the support that they have received, the authors assume full responsibility for the opinions expressed in the Report.

# Abbreviations

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<b>AAA</b>	Armenian Assembly of America
<b>AGBU</b>	Armenian General Benevolent Union
<b>AIDS</b>	Acquired immunodeficiency syndrome
<b>AMD</b>	Armenian Dram (national currency)
<b>BSEC</b>	Black Sea Economic Cooperation
<b>CoE</b>	Council of Europe
<b>CIS</b>	Commonwealth of Independent States
<b>CS</b>	Civil Servant
<b>CSO</b>	Civil Society Organization
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EC</b>	European Council
<b>EU</b>	European Union
<b>GDP</b>	Gross Domestic Product
<b>HD</b>	Human Development
<b>HDI</b>	Human Development Index
<b>HDR</b>	Human Development Report
<b>HEI</b>	Higher Educational Institutions
<b>HIV</b>	Human immunodeficiency virus
<b>HR</b>	Human Rights
<b>ICT</b>	Information Communication Technologies
<b>IMF</b>	International Monetary Fund
<b>ILO</b>	International Labour Organisation
<b>IOM</b>	International Organization for Migration
<b>IT</b>	Information Technologies
<b>LGU</b>	Local Government Units
<b>MSS</b>	Ministry of Social Security
<b>NA</b>	National Assembly
<b>NGO</b>	Non -governmental Organization
<b>NHDR</b>	National Human Development Report
<b>NK</b>	Nagorno Karabakh
<b>NSS</b>	National Statistical Service
<b>ODIHR</b>	Office for Democratic Institutions and Human Rights
<b>OSCE</b>	Organization for Security and Cooperation in Europe
<b>PRSP</b>	Poverty Reduction Strategy Paper
<b>PS</b>	Pension Security
<b>RA</b>	Republic of Armenia
<b>R&amp;D</b>	Research and Development
<b>REA</b>	Republican Employment Agency
<b>SFA</b>	System of Family Allowances
<b>SGS</b>	State Governance System
<b>SD</b>	Sustainable Development
<b>STD</b>	Sexually Transmitted Diseases
<b>TACIS</b>	Technical Assistance to CIS
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNHCR</b>	United Nations High Commissioner for Refugees
<b>UNICEF</b>	United Nations Children's Fund
<b>USA</b>	United States of America
<b>USD</b>	United States Dollar
<b>USSR</b>	Union of Soviet Socialist Republics
<b>VAT</b>	Value Added Tax
<b>WFP</b>	World Food Programme
<b>WHO</b>	World Health Organization
<b>WTO</b>	World Trade Organization
<b>YPC</b>	Yerevan Press Club

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# Executive Summary

The much cherished Independence and new horizons for economic freedom emerged in Armenia while causing drastic changes both in political and socioeconomic systems. The impact of the dual transition, along with many achievements, among which are freedom of speech, multi-partisanship, establishment of democratic institutions, etc., has been poverty and unemployment, prostitution and drug abuse, lawlessness and corruption\*, migration, social polarization and dependence on external financial and economic centers. The widespread popular discontent and emigration are clear indications that, for the general public, the status of political independence does not countervail economic and social losses. Access to fair and impartial justice is in need of much improvement. To stop the devaluation of new, fledgling democratic values and vindicate the losses incurred by the society and make them meaningful, the government should take the lead in addressing the social needs of the country, bringing policy and practices to levels that are adequate to the progressive global and national tendencies as well as indicative of the perspectives for Armenia's future.

The host of problems accumulated over the past ten years are starting to be systematized and addressed. However, a number of critical issues mentioned hereafter, need to be consistently given priority to:

## Poverty Reduction

After a decade of economic reforms, one of the most challenging issues is the widespread poverty with 55% of the population living under the poverty line. Comparative analysis of data available over the years have revealed positive shifts in the depth and severity of poverty as well as extreme poverty having decreased from 27.7% to 22.9%. However general poverty yet does not show any indication of being reduced. Poverty is especially severe in the earthquake zone, the rural areas where there is no possibility to cultivate land, borderline regions and the urban population. Among the peculiarities of poverty in Armenia (typical of the CIS countries) should be mentioned that employment and education do not always help people get out of poverty.

Armenia is among the six CIS countries that were selected to prepare Poverty Reduction Strategy Papers, (PRSP) planned for three years and expected to address the issue from all angles, including both income and human poverty. PRSP is seen as a chance for the country to reverse the process before poverty in Armenia changes its transitional nature and becomes embedded both in the lifestyle and mentality of the population. Under the leadership of the Armenian Government and the assistance of the international community and broad

participation of civil society, the process has been unfolding. The main priorities of the PRSP are to secure growth with equity, provide access to health and education, create employment and a reliable social security system.

## Reinforcement of democratic institutions and the rule of law

The legal framework for democratic governance was mainly put in place during these ten years, which however has not turned Armenia yet into a state "ruled by law" in the literal sense. The laws need to evolve further. The elections process and rooting out of shortcomings, some of which persist from year to year, require legislation improvement, reinforcement of implementation mechanisms, and mature public awareness. Real independence for media mainly depends on the country's economic development, and the maturity of Armenia's democracy and legal guarantees of the State (the ways of putting pressure on media has changed but not disappeared completely).

The balance between the responsibilities and authorities among the branches of power has been an issue of debates. The elaboration of Constitutional reforms, planned to resolve these issues as well as balance the authorities and responsibilities of the President of the Republic of Armenia have been completed and are ready for wide discussion. Despite large-scale reforms in the judicial system, the independence of the judicial authority proclaimed in the RA Constitution, has not become a reality yet. The system is in need for further improvement. The National Assembly, as the main force for advocating people's concerns is presently not very active. Its composition does not suggest that the concerns and interests of the people are voiced on a regular basis. The "turnover" in parliamentary factions is symptomatic of the fragmentation of political forces. Improving the quality of governance and legislature requires that at least the core of parliamentarians and the government comprise professionals.

Civil society in Armenia, according to various evaluations, is yet in an embryonic stage, the large number of registered organizations notwithstanding. Among the current peculiarities of the political field is that alliances are established based on situational interests rather than political similarities. Differences between the parties are blurred; the ruling party is reluctant to take full responsibility for development; there is a lack of tolerance within a given party.

Of serious concern is the fact that almost all civil society organizations, including trade-unions are registered as

non-governmental organizations, which seriously restricts the scope of their activities. Certain changes are necessary in the legislation so that trade-unions gain their importance and protect the workers' rights. NGOs cover a large range of spheres with different interests and targets, and very often fill in the vacuum. However, there are cases when the activities are finance rather than need-driven. They seem to be more interested and skilled in service delivery than advocacy. The recently formed NGO councils seem to enhance the capacity building, inclusion in the decision making process.

### Mobilization of the Diaspora

Relations between the two branches of the Armenian nation acquired qualitatively new perspective during Independence. It went through a number of phases and now can be characterized as a phase of "re-considering each other in a new capacity". Along with extensive partnerships, charity, and development projects implemented due to the efforts of the Diaspora, there are certain problems, which require that the status of Diasporan Armenians in the Homeland be changed. Flexible laws should clearly outline certain obligations and privileges. The status of Armenians who left this country in the new wave of emigration in the 1990s should be clarified within the traditional Diaspora structures, facilitating their integration into organizations that operate in the communities abroad.

### Realization of state governance reforms

The RA State governance system could be characterized as a hybrid of old and new systems with redundant staff and unclear functions and frequently occurring "erroneous selection of top management". The efficiency of the system is hampered by the lack of official strategy, of mechanisms for securing general access to information; of clarity in the delegation of functions and instructions at various levels of power, of clear cut goals and priorities.

The steps undertaken by the government include the creation of a committee on Public Reforms, the drafting of a number of documents, including a crucial law on Civil Service. The principal outcomes anticipated from efficient implementation of the structural reforms of the SGS, include determining the optimal number and structure of the State governance bodies, transferring certain specific powers from the central governance bodies to lower-level executive bodies, reducing State interference in the economic activities of individual and corporate entrepreneurs, building the public's confidence in the Government, reducing the size of the shadow economy, establishing a stable system of governance, raising the personal responsibility of each state servant, and introducing self-governing systems regulated by the State.

### Development of local self-governance system

As the authority closest to the people, local self-government is expected to ensure civil society building, decentralization of power, economic development and solution to problems related to utilities and service provision. Though the Constitution of 1995 served as a basis to introduce a system of local self-government, the legal framework related to local self-governance needs improvement, such as introduction of mechanisms to exercise the rights of communities, to balance the mandatory and delegated powers and the financial resource of communities, to secure regular and uninterrupted allocation of earmarked funding, to take into consideration the specifics of the communities as well as to clarify the relations between the local and state authorities.

The expeditious improvement of the system will require improvements in administrative-territorial divisions and a reduction in the number of communities. This will lead to further advancement towards decentralization and expansion of community powers, financial allocations to communities and budgets that are within the scope of the communities' mandatory and delegated powers, improvement of the legislation related to local self-government and its implementation.

### Economic Reforms

Economic reforms implemented in Armenia over the last ten years, aimed at the formation of relations, institutions and management systems inherent to a market economy, had a positive impact and efficient solutions were achieved. However, the approaches to such solutions were neither holistic nor coordinated and they were often incomplete and lacked coherence. As a result, even the most timely laws and decisions were limited in terms of their positive impact since various sectors of the economy operate under different and sometimes contradictory regulations.

The privatization process, which started in Armenia in 1991, could be divided into three stages - initial, large scale and decelerated. The various ways of privatization used to ensure a wide outreach proved an illusion of social justice as there was no logical continuation to make investments through appropriate tools and regulations.

Already for several years the State has failed to recognize that there has been no significant progress in privatization since the investments made to privatize enterprises are largely insufficient; the number of operating enterprises has decreased, resulting in an increase in the number of unemployed; a large group of private proprietors has not been formed, and an effective market has not been established.

Steps to be undertaken while privatizing the remaining enterprises include clarification of the privatization goals; implementation of a correct policy for evaluating property; carrying out comprehensive preparatory activities prior to privatization; using flexible payment methods for various types of privatization.

Economic growth in the development scenario of any country is a necessary and critical issue. However, it cannot be an end in itself. In Armenia it should aim poverty reduction, addressing deep polarization in incomes and inequality, promoting investments in the human capital, small business, and social infrastructure.

Once the positive trends observed in the first half of 2001, such as outstanding economic growth, realization of the income part of the budget, increase in export and decrease of the negative trade balance continue to display an inter-linked and coherent growth pattern, this may bring about a qualitative change in development perspective.

Among the main challenges of the capital market is the establishment of mechanisms for converting the current modest savings into investments and the absence of investment and financial tools. The embryonic stage of the financial market in Armenia is also conditioned by the underdevelopment, or in some cases absence of necessary infrastructures, namely independent evaluators, realtors, stock exchange structures, brokerages, investment funds and companies, auditors.

The creation of an environment that ensures equal competition based on legislation as well as practical mechanisms requires expedient banning of the existing double standards through legislative and administrative measures and imposing strict limitations on monopolization, as well as efficient management of state property.

There still exists the belief in society that the former "flagships" of the economy can be saved and revitalized. The solution to this problem lies in the regulation of state enterprise activities, their control, performance evaluation, as well as a coordinated approach to their liquidation, if they cannot be privatized or when there is no alternative.

Of the past ten-year process of establishing statehood, the introduction of a national currency, the Dram, represents an important stage. Present challenges include the use of targeted and effective monetary policy tools, which would ensure the manageability of inflation, while adequately boosting the economy. The further development of the banking system should be orchestrated by adequate establishment of other institutional players, such as insurance, investment companies, non-banking financial and loan organizations.

## Taxation Policy

Taxation policy is seen as one of the most powerful eco-

nomical levers to promote economic development and small and medium entrepreneurship. Legislation on taxation underwent substantial review between 1997-2000 when fundamental new laws on taxes were adopted, based predominantly on international standards. However, some principal problems regarding enforcement still remain unsolved in taxation legislation and the administrative system. Under these circumstances the promotion of sustainable and accelerated economic growth does not translate into a taxation policy that will also solve current fiscal issues.

The changes in taxation legislation at the end of 2000 created two major groups of taxpayers: (i) fixed and simplified taxpayers and (ii) those taxpayers who prefer paying profit tax thus leaving the final choice to the taxpayer and excluding any pressure from the State.

In the course of the next several years, and taking into consideration certain proportions of the economy's development, the taxation burden of businesses should be gradually modified to put more stress on direct income taxes, while preserving the boosting impact of taxation mechanisms.

One of the most critical issues for an efficient taxation policy is the transfer of jurisdiction exclusively to the courts for imposing fines and penalties on undisciplined taxpayers. The adoption of a law on inspections had a substantial impact - double inspections are now strictly limited and comprehensive inspection by any state entity is prohibited.

## The Shadow Economy and Corruption

The tough and inefficient taxation and customs policies, governmental regulations and restrictions, as well as corruption occupy a prominent place among the factors contributing to the creation and expansion of shadow economy.

Compared with other countries, the Armenian shadow economy has a number of peculiarities, including that it is not generally linked to criminal gangs; it is perceived as "normal" due to its widespread nature and is quite visible. In the period of 1990-1994, the shadow economy has secured social stability by creating an opportunity for socially vulnerable groups to earn some income. From 1995-2000 the destabilizing and negative factors of the shadow economy gradually started to prevail. Under conditions of internal political tension, the expansion of shadow economy was reflected in the relative reduction of tax revenues. Through the specific relationship developed between politics and the shadow economy, the incomes generated through shadow activities are used for attaining political power. Assessments using the cash money method indicate that the shadow economy in



Armenia was at its lowest level in 1994 and then began to increase, reaching its highest level in 1997. The increase of the shadow economy in 2000 (60% of the GDP, according to expert evaluation) as compared with 1999 (54.5%) can be explained by the unstable political situation at the beginning of the year, following the known events of October 1999, which prompted people to evade taxes and operate in the informal sector of the economy. If the expansion of Armenia's shadow economy continue, Armenians may find themselves in a very difficult situation in a few years.

Corruption in Armenia currently has spread to all spheres of life and all forms, i.e. at the personal, institutional and systemic levels. Among the reasons for corruption in Armenia are mentioned low salaries, inadequate punitive mechanisms, shortcomings in the legislation, an atmosphere of omnipotence accepted by the society, etc. Two other factors that have had an impact on the level of corruption in Armenia are the expansion of international trade/business and the privatization process.

The negative consequences of corruption for society, conventionally divided into four groups: political, economic, social and development problems, in fact paralyze the entire range of activities in the country.

Anti-corruption activities that have the support of all the segments of society and the international community include establishment of an anti-corruption commission; adoption of a concept for combating corruption; design of an anticorruption program, including improvement of legislation, particularly in economic, judiciary and legal areas as well as adoption of a special package of anti-corruption laws.

## Budgeting Process

In most cases, budgets in Armenia have been unrealistic, repeating the same mistakes and shortfalls. They have failed to identify discrepancies at the defining stage of programmatic indicators, to determine the quarterly proportions for state budget implementation, to implement numerous guaranteed budget lines, to provide complete information on community budgets, and to carry out sequester even in the most evident cases. Under such circumstances, the provision of loans from budgetary sources is questionable. As a rule, these loans are not repaid on time, are often misused and are regarded as a specific form of non-returnable budgetary financing. It became an accepted practice to raise the budget implementation rate artificially by clearings. Particularly in 2000, 23,719 billion AMD worth of clear-

ings were made, which amounted to 11.3% of the state budget implementation rate. The situation is promising in the first half of 2001, with 99% of budget execution.

Elimination of 4-5 billion AMD worth of annual subsidies to the energy and water resource spheres respectively could bring about drastic changes in the budget structure, provided that the principle of mandatory payment for the use of resources and services is reinforced implicitly. The "freed" resources should go cover the salaries of the budgetary sphere, and decentralization of budget expenditures, in favor of local budgets. Decentralization of budgetary means, given their highly centralized nature, is seen as one of the most important ways to make expenditures more targeted. The unified system of state procurement is one of the measures taken to increase the efficiency of budgetary expenditures. Another step could be the establishment of a treasury system with the incorporation of extra-budgetary funds, particularly the social insurance fund.

## Investment

The current level of investments is largely insufficient and is too low to ensure dramatic and stable growth. Despite contributing factors, such as the commitment by the Armenian Government, macroeconomic and political stability, enabling environment and legislation, as well as active Diaspora, the cumulative sum of foreign direct investments (FDI) from 1995-2000 in Armenia was approximately 580 million USD - the lowest among the CIS countries after Moldova, Kyrgyzstan and Tajikistan.

The impact of investments on Armenia's economy can be assessed as very limited, given the small volumes of investments and their concentration in a very small number of companies. The two largest investment programs implemented in Armenia resulted in the newly created monopolies in the sphere of communication and gas markets, with all the ensuing consequences. FDI has had some impact on the development of exports, although mainly in terms of products heavily reliant on raw materials.

All studies of the investment environment of recent years indicate corruption and particularly administrative obstacles as major factors deterring investments. A number of high-priority steps should be taken to make the legislation and regulations for investments predictable, the judicial system trustworthy, investment supporting infrastructures effective, insurance system against risks established, investment promotion policies stimulated, support, expertise and know-how of international community available.

## Social Reforms

The social reforms implemented in Armenia do not yet adequately address the fundamental social issues of the population. Having a more tactical rather than strategic nature, they were not based on a system of clearly identified priorities and objectives. The government's efforts aimed at addressing the needs of the vulnerable groups of the population are not sufficient, since especially children, women and the elderly become the first victims of harsh transitional difficulties. The drawbacks of the social sector, which is yet in the formation stage, are due to a lack of a comprehensive concept for social development based on the real economic opportunities of the country, the deficiency of the legal and institutional framework for the sector as well as a lack of a system of monitoring and analysis of social indicators allowing for more predictability of the social consequences of reforms.

Among the positive shifts are the structural reforms in the sector, the creation of new structures for the population's social protection, the adoption of numerous legal instruments for the regulation of the sector, programs on training and retraining of social workers, a more coordinated cooperation with international organizations, relative automation of the management system for the social sector, and various programs of reforms.

The targeted social assistance system introduced since 1999 is being improved, among other measures, through the creation of social assistance councils under the auspices of the regional social service centers. The elaboration of a draft law on social assistance envisages a shift toward a differentiated allowance scheme aimed at improving economic conditions of the most vulnerable households.

### Pension System

During the last decade, the legal framework for pension security has changed dramatically, and yet the pension system operates on "as it comes" basis, i.e. all the financial resources entering the fund are fully spent on pension payments. The system presently involves 30% more pensioners than 10 years ago. A 100% compliance of mandatory social security payments (considerably hindered by widespread shadow economy) would increase the payments' volume 2,6 times as compared with the current level, and the average pension would have increased from 4,481 AMD to 11,650 AMD.

The role of the State, as the main donor of the pension security system, has been drastically reduced. While in 1991 the state budget financed 70% of the system, at present the budget allocations stand at 4.81% only, reflecting a 14-fold decrease.

The roles and functions of the actors of the pension sys-

tem - the state, the employers and the employees, have changed fundamentally. At the same time, the old principle of operation still holds. The pension size does not yet depend on the size of insurance payments. "Harmonization/Egalitarianism, i.e. the non-insurance character of the pension system is viewed as the main obstacle to its development.

To improve the system, the reforms should emphasize the following two aspects: program policy development and appropriate administrative management. Numerous duplications of functions and lack of clear separation between the duties and liabilities of different bodies involved in the management of the pension system and lack of any clear responsibility for the "end product" have rendered the system ineffective. Management has never been regarded in Armenia as an "effectiveness factor". Of strategic importance is the creation of a pension system that together with assigning a new role to the State, will create favorable conditions for the members of the society to "earn" their pension, and focus on those who cannot take care of themselves.

In a comprehensive setting, the process should comprise the creation of a new pension system model, the reform of its regulatory base, and legislatively stipulated division of rights, functions and responsibilities between state and local self-governance bodies based on social partnership.

### Employment and Labor

Analyses of the labor market of Armenia from 1994 to 2001 reveal that its situation is still extremely tense, with growing disparity between labor supply and demand. During the last years, Armenia's labor market has demonstrated an increasing tendency in hidden unemployment and hidden employment.

The officially registered unemployment level in 2000 stood at 11.7%, and in 1999 - at 11.2% (34.4% according to independent evaluations). Unemployment is especially acute in the disaster zone and in urban areas. Women still constitute a majority among the unemployed. There is an increasing ratio of the unemployed in the 31-50 age group. On the other hand, employment is not a guarantee against poverty - of the employed 17% is considered extremely poor.

Though the employment policy has begun to display some features characteristic of a proactive policy since 1999, including the promotion of economic activity and the creation of a corresponding favorable environment, activities implemented in this regard are either inefficient or non-existent. Components on training and creation of a rehabilitation center for the disabled have not been implemented either.

The legal framework for the labor and employment sector does not correspond to the actual economic situation

and does not contribute to its improvement. It should be fundamentally revised and brought into conformity with the realities of the day.

The new draft Law on Employment and the draft Law on the Mandatory Unemployment Insurance, as well as a new Employment Code are currently being designed. The Employment Code now in force neither corresponds to the requirements of a liberal economy, nor does it safeguard different types of ownership or provide for the rights and obligations of hired workers.

Among the issues of priority for regulation of the employment domain are the design of a clear and comprehensive policy for the labor and employment sector; improvement of the management system for the sector; dynamic amelioration of the corresponding legal framework; organization of training programs inside enterprises; creation of mechanisms for the latter's active engagement; increase in the public works system; adaptation of the remuneration levels to new conditions.

Today, when the current Labor Code is no longer capable of regulating emerging labor relations, social partnership could be very timely to ensure the best possible equilibrium of interests of various social groups, primarily the employees and the employers. The Government decree of March 2001 brought together all three actors of the social partnership system - the state, trade unions and employers onto the Executive Board of the Social Security Fund of Armenia. However, these entities still lack a real and practical substance, since it is perceived that under the current socioeconomic conditions the parties involved have nothing to "share". The new phase of economic reforms in Armenia requires elaboration and adoption of a coherent program of cooperation between the state, the trade unions and employers with the implementation mechanisms enforced at all levels of the social partnership, aimed at providing an axis for social equity policy.

## Migration as a Social Issue

Between 1988-1999 almost 3,250 million people were part of one or another kind of Armenia's external migration flows. The total number of those who left the country from 1991 - 2000 is estimated approximately at 900 thousand. Most emigrants are men (more than 60%) of active working and reproductive age (20-44 years). There is a low ratio of children and especially of the elderly, and the education level is considerably higher than the average for the country.

The unprecedented migration levels of the last decade have had a negative impact on the country's demographics and can be counted among the key factors responsible for more than a two-fold decrease in the marriage and natural growth rates. Migration has also jeopardized family relations by causing long separations among married couples and family units, impeding the

upbringing of children, and worsening the relations between the sexes and generations.

The growth of uncontrolled labor migration flows, in spite of any negative impact, can be seen as a rather positive factor in the mitigation of the country's unemployment. However, this marginally positive aspect quickly evolves into a substantial negative one in a sense that this segment of the population prompts a new wave of emigration.

In the absence of corresponding interstate agreements, the protection of the rights of labor migrants becomes an issue. Due to a lack of legal status, they are often subjected to violations of agreements with organizers of their transportation and employers in the countries of destination, including exploitation, violence, forced labor and other violations.

During the last years, migration flows of the Armenian population reached levels that visibly affected the course of the country's economic development, its social and demographic situation, morale and consequently, national security. Until recently, in spite of the growing migration rates, a national policy on migration was nonexistent. Only in November 2000 the Government adopted the concept on the state regulation of migration which highlights the priorities of the migration policy and delineates the means for addressing these priorities.

## Education

The education system, while not having suffered irreversible losses, nevertheless, encountered very serious problems during these ten years. State budget allocations were curtailed, the renovation and maintenance of the educational institutions were drawn to a minimum, teachers' training courses were shut down, etc.

The RA government provides free of charge full secondary and 20% of tertiary education. In reality, at both levels of education significant supplementary payments from family budget have become inevitable, which seriously limits the access of insolvent groups to high quality education.

The challenge of securing a fair start for all at the beginning of life remains the most important prerequisite of social justice. However, the problem becomes even more complicated given the meager allocations from the state budget to the education sphere (about 2% from the GDP as compared with 7-9% in the 80s), while expenditures per student amount to about 40 USD. Both are rather low indicators as compared with other countries.

The current reforms are directed at the education sector's structure, content and management. The public at large, while having accepted that these approaches are in line with democratic principles, remains rather cautious about these innovations which should include opti-



mizing the system structure, cutting back the over-extended network of schools and teachers, increasing per school and per student allocations as well as teachers' salaries.

There is a serious lack of coherence between the current system that prepares specialists and market demand. Thousands of young people with no particular form of training are entering the labor market every year. This is also due to a scarcity of relevant specialized educational institutions. On the other hand, institutions of higher education continue to "produce" thousands of specialists for which even in theory there is no market demand.

A number of innovations carried out in the RA educational sphere include the adoption by the National Assembly of a law on approving the state program on the development of RA education, aimed at improving the quality of education.

## Health

The fundamental transformations in the country drastically affected the health care system, bringing about deterioration of birth and natural growth rates, even at the background of relatively stabilized mortality rates. Diseases that are considered to be provoked by difficult social conditions are on the rise. The same holds true for cardiovascular diseases and heart attacks, especially among women. Cancer is highest in terms of morbidity incidence and second for mortality. Tuberculosis is mainly found among young people. There is also a ten-fold increase in sexually transmitted diseases (STD).

Universal access to healthcare is jeopardized particularly for the most vulnerable groups. The healthcare system works only at half of its capacity, referrals to polyclinics, home and emergency ambulance calls have decreased, indicating at insolvency of the population and a decline in the quality of health care, rather than improved health.

A new healthcare system model, adopted by the Government in 1997 was introduced to address the following four areas: organizational structure and management of the system, network structure, funding, and medical education.

The introduction of paid medical service, with all its drawbacks and negative implications, was perceived as an inevitable stage in the process of financial reforms since the volume of operations under the targeted public health programs have repeatedly exceeded the limits of projected funding from the state budget. To make this transformation less painful for the population, a variety of health care funding was envisaged, through the introduction of the state order systems, medical insurance and direct payment. A system of payments in the form of a global budget for hospital services was introduced, effective 1 June 2000. It aims to ensure manageability of costs and to introduce the utmost clarity in terms of the state's obligations vis-à-vis healthcare assistance and services.

Reforms are ongoing in medical training in conformity with market demands, through the reduction of the number of medical students, extending the time of education for nurses and enhancing professional educational programs, regular renewal of licenses for doctors, nurses and pharmacists. The radical changes undertaken in the country are aimed at developing a preventive healthcare system, increasing the accessibility of quality medical services, and introducing the concept of a family doctor.

## Culture

Independent Armenia has inherited ancient cultural traditions and values, as a powerful network of institutions for the protection, development, education, creation, and awareness building of cultural heritage, as well as favorable conditions and opportunities for the development of the cultural industry. Hopes that independence will open new opportunities and potential for cultural development have not materialized.

The ten-year period could be characterized by three main components, which were dominant in different time-periods: the lack of any doctrine which came to replace the prevalence of ideology in culture; preservation of cultural institutions at any cost; establishment of direct contacts with foreign countries (often with unjustified show-off overtone).

An assessment of the last decade's cultural development reveals that losses have been striking for a variety of reasons. Of primary significance are: the drastic drop in the volumes of printing, the cinematography crisis, and the loss of dozens of libraries, culture clubs, museums, movie theatres, ensembles and artistic groups. New groups have emerged, however their number is tenfold less than those dissolved, while some of the new groups had a very short life or appeared in crisis. However, the most dramatic sacrifice has been made in the area of cultural education and propaganda of cultural values. Globalization's threat of widening cheap cultural values has encountered almost no resistance.

The Cultural Development Agenda, the elaboration of which was completed in October 2000, stresses the preservation of the cultural heritage for future generations, support of artistic and creative activity, as well as promotion of the reproduction and dissemination of cultural values. In order to attain this fully acceptable goal, the state has taken the path of democratization of the management system, liberalization of cultural activities, priority given to the cultural values of global significance, and decentralization of culture institutions.

During the last decade, steps were towards accession to international instruments in the domain of culture and the formation of a national legal framework. Yet, the legal instruments are not sufficiently enforced. Several spheres are completely left out, while others are not re-

gulated. The lack of financial resources, culture sponsorship, management skills makes the statements on the democratization of the sector sound premature.

The lack of legal and economic instruments causes serious problems with decentralization of the system, moreover, the Government exerts efforts to re-institute its authority, which cannot be considered a long-term approach. Information and communication technologies are practically absent from the culture management system. It is hardly possible that the priorities of the Cultural Development Agenda could ever be addressed without adequate information support and an in-depth situation analysis.

## Armenia's Future in a Globalized World

### Perspective Directions: Information and Communication Technologies

Among the necessary steps to be undertaken by the country are the identification and development of perspective spheres, determination of the country's stance in globalization processes, and establishment and enhancement of institutions or mechanisms for good and effective governance. Presently, prospects are quite good for advanced technologies, including information technologies, research and development and other services. Armenia has a unique opportunity to catch the momentum of change and find its special place in the rapidly growing global market based on its educated, skilled, creative, innovative, flexible and productive labor-force.

The production of small volume/high value Information Technology (IT) products and other services related to the computer industry is progressing rapidly. These products and services are considered to be export niches and the most promising sectors for Armenia's development. Software exports alone amounted to an estimated USD 20 million, according to independent evaluation. All ICT sub-sectors enjoy sustainable growth, with the exception of the "IT Hardware" sub-sector.

In spite of the fact that, compared with other industry sectors, the IT industry encounters fewer legal and administrative barriers, they still exist and are embedded in the provisions of the Copyright Law, while the absence of a law on electronic commerce and electronic signature hinders the development of this economic sector in Armenia. Among the several constraints that limit Armenia's broader leveraging of ICTs in support of economic development are limited Internet access and legal restraints that hamper exploiting the Internet for advancement of e-Commerce.

The ICT industry in Armenia enjoys sustainable growth, with a three-fold impact on other economic sectors since it is a promising industry sector; it provides the required technological base for the development of other sectors; its infrastructure attracts foreign investment.

The ICT sector is extremely flexible and can quickly change its strategy, policy, and range of produced goods, thus facilitating the transition of other industry sectors in Armenia. The ICT sector has several essential advantages by utilizing the available high quality human capital; creating jobs with minimum investment capital; exporting its products quickly and easily on any scale; being extremely attractive for foreign investment, and supporting Armenia's integration and competitiveness in the world markets.

Recognition of the sector's priority and the programming now underway (with financial and technical support from all international organizations) may be considered the first promising steps the Government has taken toward the development of Armenia's ICT sector. Moreover, the sector grows quickly and exerts pressure on the State to eliminate the obstacles preventing its development. The State is beginning to respond by clearly identifying its tasks such as the creation of a competitive environment in the sector of Internet services and endorsement of its development; elimination of administrative barriers; elimination of legal obstacles for the protection of intellectual property rights, and implementation of reforms in IT education system.

### Globalization processes

As an independent and sovereign state, Armenia became directly and actively involved in the globalization and integration processes through accession to a number of international and regional organizations, participation in global conferences, etc. Yet, the country must address a two-fold issue: identification of its agenda vis-à-vis globalization and determination of the degree of its involvement in globalization.

The consequences of globalization for Armenia, as a "recipient country", lie primarily in the cultural and social-economic domains, since integration into the global market opens wide opportunities on the one hand, while causing controversies on the other hand. For Armenia, the threats of globalization are three-fold: its economic, cultural and political pillars are endangered. The challenge for Armenia is to adapt to the globalized international community in the best possible way, taking maximum advantages of the opportunities it offers and at the same time mitigating its negative consequences through identifying a system of "filters" that provides a selective approach to what globalization offers; protecting national culture through further development and its universalization; using regional cooperation to forge long term partnerships in economic, social and cultural domains, as well as in terms of security and other considerations.

Along the same lines, Armenian authorities should take into account several objective realities of the globalization process. The most relevant of these are:

- ✦ Globalization is an objective phenomenon and its further development and proliferation are unstoppable.
- ✦ Globalization means the unprecedented competition of goods, services, labor, capital and technologies on the international market. To effectively integrate into the global economy, Armenia should gradually increase exports from the technologically advanced industry sectors.
- ✦ Armenia should attract as much investment from transnational corporations as possible. At the same time, the protection of the country's interests requires active participation in such organizations and adequate knowledge of global development trends.
- ✦ Delays in addressing Armenia's transition problems will lead to a more acute manifestation of globalization's negative impact.
- ✦ Armenia is favorably positioned geo-politically, and so in this regard has much potential, once the Karabakh conflict is resolved. Routing oil and gas pipelines across the country's territory, rebuilding the north-south highways and railways would be important factors for attracting considerable volumes of foreign investment. Additionally, Diaspora investors may become the second most important factor. This potential, should it fully materialize, will bring about a positive impact of globalization for Armenia.
- ✦ Armenia should diversify its foreign economic relations to mitigate the impact of economic shocks, bring the level of dependence on individual countries to a reasonable minimum, and expand its cooperation with more stable and developed markets.
- ✦ Design of a new governance concept and training of qualified professionals are essential to ensure that all regulations and requirements of the global economic development are taken into account at the national level.

## Good Governance Basis

Given the growing globalization and integration, the rising complexity of management hierarchies, the increased scale of operations and the accelerating pace of change in the economy (as with countries in transition), enhanced effectiveness of management and governance, as well as rationality of administrative decisions have increasingly become the focus of attention worldwide. For Armenia to be effectively governed, Report suggests a theoretical framework of systems of i) program provision, ii) scientific substantiation and iii) effectiveness assessment systems for RA management. The creation and development of these systems is crucial and needs to be undertaken urgently, since apart from

being the main prerequisites for effective functioning of the country, they will also contribute to the democratization of management processes, and increase the involvement of specialists in the preparatory process of decision making.

The operation of inter-related systems, described above closely relates to all aspects and functions of governance. Being beyond the very process of management, they will become a management infrastructure that largely predetermines its effectiveness.

Delays in the elaboration of a program for creating the above mentioned systems increase potential losses. The creation and development of such systems will ensure increased transparency and democratization of the management processes through the involvement of an increased number of experts in the formulation, assessment, adoption and implementation of decisions.

The suggested theoretical framework of systems may be applicable to poverty reduction as well as human development, allowing to reconsider previously used approaches and receive better-substantiated solutions to the problems that would take into consideration the specifics of each country and society. The creation of a similar structure would provide the Government and all parties involved with conceptual recommendations, guidelines and information on the existing HD problems in the country.

The framework will also attribute to the change of HD paradigm, which as a reality existing and evolving in time and with time, needs clarification and perfection. While presenting HD as a Development Paradigm, UNDP thus made it a guideline for people's activities, i.e. a principle in making and substantiating human-centered decisions. At present, it is characterized as a process for expanding people's choices, viewing people both as a means and an end for development.

## A Model for the Future

Based on the analyses of the ten-year period of transition and independence together with the prerequisites, constraints, opportunities and limitations, the Report sees Armenia's future as part of post-industrial cooperation, since it creates new development opportunities for a country with scarce resources through the utilization and development of human resources.

Armenia's development is seen in the framework of a liberal economy, an open society and a social state. Importance is given to the establishment and strengthening of institutions that guarantee freedoms. The provision of a social state is enshrined in the first article of the Constitution of Armenia, which cannot be amended. It implies the creation of a state that is exclusively oriented towards its citizens (until now this is not implemented in

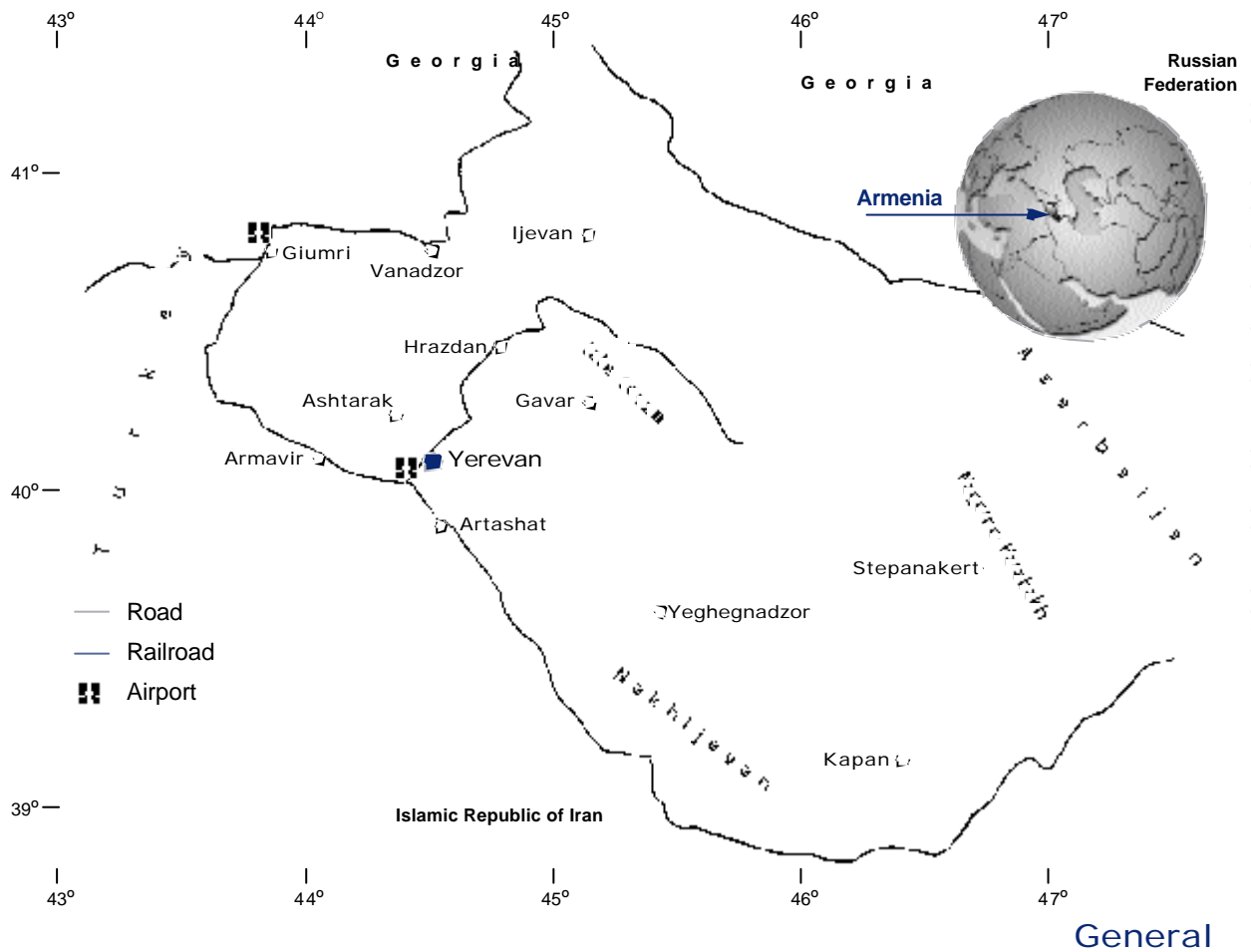
legal and political practices). It is undeniable that ensuring stability and security in the long term is possible only under conditions of strengthening democracy and fundamental civic values. Therefore, recognition of human development and human-centered laws as a top priority will become a basis for the resolution of conflicts.

Given the absence of democratic traditions and weakness of civic institutions, as is the case in Armenia, the effectiveness of reforms is primarily conditioned by the State's activities. Consequently reforms of the State's governance system should be a top priority. Steps taken

to improve the investment environment will result in an increase in the economic freedom index, and support the formation of a middle class. All this poses certain challenges before the State and political system, the implementation of which is in the core of public concord.

To get on track toward sustainable human development, the state and the political system must clearly define the current agenda and make it public property: resolution of conflicts, integration, creation of an efficient state, guaranteeing freedoms, formation of a competitive economy, development of human resources.

# Basic Facts about the Republic of Armenia<sup>3</sup>



Religion	<b>Armenian Apostolic Church</b>
Official Language	<b>Armenian</b>
Currency	<b>Dram (AMD)</b>
Exchange rate	<b>1USD =539.52AMD</b>
Fiscal year	<b>January/December</b>

**HUMAN DEVELOPMENT INDEX** 93/174 (HDR 2000)<sup>4</sup> 72/162 (HDR 2001)

**LAND AREA** 29, 743 km<sup>2</sup>

**POPULATION** 3,803,395<sup>5</sup> 3,802,371

**GDP PER CAPITA** 485.0 USD 503.6 USD

## LAND USE

Land used for agriculture (thousand, ha)	1,329 km <sup>2</sup>
Forests and reserves(thousand, ha)	1,316 km <sup>2</sup>
Land of other land-users (thousand, ha)	0,329 km <sup>2</sup>

<sup>3</sup> All figures are provided by the National Statistical Service of RA unless otherwise indicated

<sup>4</sup> HDRs present data with a two-year lag

## VITAL STATISTICS

01.01.2000

01.01.2001

Population density (person/ km <sup>2</sup> )	128	128
Population growth rate	0.2%	-0.05%

## POPULATION DISTRIBUTION

Urban	66.7%	66.6%
Rural	33.3%	33.4%

## HEALTH

Life expectancy at birth	73.2 years	72.5 years
Male	70.7 years	70.5 years
Female	75.5 years	74.5 years
Infant mortality rate (per 1000 live births)	15.4	15.6
Maternal mortality rate (per 100,000 live births)	32.9	52.5
Population per doctor		
Population per hospital bed	161	172

## EDUCATION<sup>6</sup>

1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> level gross enrolment ratio (7 and 17 years, annual, %)	60.2	59.6
Net school enrolment ratio, %	86.7	89.1
1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> level gross enrolment ratio (7 -22 years, annual, per 1000 people), including	597	572
General education system (7-16 years)	790	776
Secondary vocational education (17-20) <sup>7</sup>	129	113
Higher education (17-22)	153	146
Adult literacy rate	99%	99%

	01.01.2000	01.01.2001
<b>ECONOMIC INDICATORS</b>		
Real GDP	1844.6 USD m	1915.2 USD m
Real GDP growth (annual % of change)	3.3%	6.0%
<b>GDP by main activity</b>		
Industry	21.2%	22.1%
Agriculture	27.2%	23.1%
Construction	8.8%	9.1%
Services	34.9%	35.2%
<b>Inflation</b>		
Inflation (December of the current year as compared with December of the previous year)	2.0%	0.4%
Inflation (average annual)	0.6%	-0.8%
<b>State Finances</b>		
Total Revenues	356.8 USD m	319.1 USD m
Total Expenditures	432.9 USD m	413.1 USD m
Budget Deficit	76.1 USD m	94.0 USD m
<b>External Sector</b>		
Balance of Payment		
Exports (fob)	383.1 USD m	446.8 USD m
Imports (fob)	919.1 USD m	966.2 USD m
Net Private Transfers	79.7 USD m	85.6 USD m
Current Account Deficit	-306.9 USD m	-278.4 USD m
As % of GDP	16.6%	14.5%
External Debt	870.3 USD m	859.5 USD m
As % of GDP	47.2%	44.9%
Unemployment	11.2%	11.7%



# Introduction

The 2001 National Human Development Report (NHDR) Armenia, prepared by a group of independent national specialists and sponsored by the United Nations Development Programme, with the Presidency of the Republic of Armenia, representing the Government, is the seventh consecutive Report issued in Armenia since 1995. Each NHDR has taken as its main theme a particular burning issue (social cost of transition-1995, pover-

ty-1996, social cohesion-1997, the role of the state-1998, the evaluation of human development over five years-1999, human rights-2000) and has analyzed it in light of human development. NHDR 2001 reflects on the developments of a decade long history of Independence and transition. Based on analysis, outlined opportunities, realities and necessary prerequisites, the Report presents recommended approaches for Armenia's development.

## 1 BOX

### Global HDR 2001- Making New Technologies Work for Human Development

The Report is about how people can create and use technology to improve their lives. It is also about forging new public policies to lead the revolutions in information and communications technology (ICT) and biotechnology in the direction of human development.

People all over the world have high hopes that these new technologies will lead to healthier lives, greater social freedoms, increased knowledge and more productive livelihoods. However, many people fear that these technologies may be of little use to the developing world - or that they might actually widen the already savage inequalities between rich and poor. In the early 1990s the poorest 10% of the world's people had only 1.6% of the income of the richest 10%. Without innovative public policy, the technologies could become a source of exclusion, not a tool of progress. But managed well, the rewards could be greater than the risks.

If new technologies offer particular benefits for the developing world, they also pose greater risks which are the result of poor policies, inadequate regulation and lack of transparency.

These risks can be managed both at national and global levels. Nationally, the countries take advantage of their being technology followers, make the most of regional collaboration, develop national scientific and research capacities, strengthen regulatory institutions and mobilize local voices. On the global level, more research is conducted, public trust in science is restored, information and experience are shared. The technological revolution and globalization are combining to create a new network age which is structured along horizontal networks with each organization focusing on competitive niches. Many developing countries are already tapping into these networks, with significant benefits for human development. In the network age every country needs the capacity to understand and adapt global technologies for local needs. All countries, even the poorest, need to implement policies that encourage 1. innovation through stimulating research and development (R&D) and entrepreneurship, 2. education systems to meet the new challenges of the network age by improving quality, 3. mobilization of diasporas by using their expertise and resources. The Diaspora's attitude towards returning to the home country is likely to change as the country develops and its prospects improve.

The Report calls for global action on four fronts:

- ✍ Creating innovative partnerships and new incentives for R&D- motivating the private sector, government and academia to combine their strengths in R&D, both within developing countries and through international collaboration.
- ✍ Managing intellectual property rights- striking the right balance between private incentives to innovate and public interests in providing access to innovations.
- ✍ Expanding investment in technologies for development-ensuring the creation and diffusion of technologies that are urgently needed but neglected by the global market.
- ✍ Providing regional and global institutional support -with fair rules of the game and with strategies that build the technological capacity of developing countries.



This time too, the selection of the theme for NHDR 2001 was the result of extensive discussions at various levels, dictated by a ten-year-period of Armenia's Independence and transition. The population's disappointment with the results of the transition period as well as the need for choosing perspective and long-term policy have been critical. An attempt was made in the Report to evaluate the changes of the past ten years, compare progress and regress, gains and losses, opportunities and constraints, achievements and setbacks. The emphasis of analysis this year has shifted towards Governance and good or effective governance, characterized by participation, transparency, accountability, rule of law, effectiveness and quality<sup>8</sup> for the issue is more than urgent and timely in Armenia.

All of mentioned above, obviously, cannot be discussed in a single Report. Hence, NHDR 2001, while presenting the ten-year period of Armenia's independence and transition, has concentrated on the issues that previously have not been touched upon (or only superficially), including pension reform, corruption, the shadow economy, information technologies, systems of program provision, scientific substantiation and assessment of the effectiveness of management. Others, such as Human Rights and related issues, have been only touched upon, since NHDR 2000 "Human Rights and Human Development: Action for Progress" has covered those issues in full length.

This year too, the Report has been faithful to its commitments - to contribute to spreading knowledge, to raising a nationwide discussion on the need for integrating human centered concepts in the decision making and policy design and implementation process. The Report attaches special attention to the constructive diversity of views, hence non-governmental organizations and individuals were given the opportunity to raise issues of common concern, share their expertise and views (even if these views are incongruent with those of the core team of authors). We would like to reiterate that the Report is prepared by a group of independent experts, both the main text and the boxes, and does not necessarily represent the opinions and views of the Government or the United Nations.

The Report mainly covers the events from 1991 up to the first half of 2001 and focuses on the dichotomy between the perception and reality of independence and transition, the emerged opportunities, democracy processes, the current issues of the state and local self governance, the course of social and economic reforms and their

results. Given the evaluating and encompassing nature of the Report, the team of authors tried not only to concentrate on the analysis of the ten-year period, but also to look forward and consider Armenia's future in a globalized world through identifying the perspective spheres, viewing the impact of globalization processes and picturing Armenia in the post industrial world, as the most suitable model for the country. New technologies and the ICT industry in particular are seen as engines for a breakthrough, with a spillover effect into various spheres, including the transformation of the Industrial Economy to Information Economy.

Globalization processes, as an inevitable and external reality, raise threats and simultaneously open doors for unique opportunities that should be managed to minimize losses and maximize benefits. "Without innovative public policy and technologies, globalization could become a source of exclusion, not a tool of progress" hence as another necessary and critical prerequisite emerges the need for the establishment of a framework of governance tools, which will allow to secure the utmost accuracy, substantiation, and comprehensiveness of decision-making in Armenia. It should certainly integrate the human development through a closer consideration of the paradigm of human development and human centered concepts.

In regard to the status of human development in Armenia, considerable progress has been made, according to the Global Human Development Report 2001. Measured by the Human Development Index (HDI), which comprises GDP per capita, adult literacy and life expectancy, and through which UNDP ranks around 170 countries worldwide to evaluate the policy pursued by those countries from the point of Human Development, Armenia has advanced from 87th place (HDR 2000) to 72nd due to improvements in all the HDI components - level of adult literacy, life expectancy of already rather high indicators and certain economic growth registered in the country. Such an advance can be partially ascribed to the fact that 1998 was particularly successful in all aspects. Besides, at the international level, instead of the previous 174 countries, only 162 countries were included in the global ranking, hence seven countries with traditionally high human development were left out from the list, mechanically improving Armenia's ranking. The NHDR authors' team hopes that the recommendations rendered in this Report will also contribute to making Armenia's advancement in human development sustainable.

# 1700<sup>th</sup> anniversary of adoption of Christianity as a State religion

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"... The conditions of independent national Statehood make it imperative that relations between the Armenian Church and the Armenian State should enter a new phase and be anchored in law. The Armenian Church and the Armenian State are the Armenian people in their entirety. It is only through the harmonious union of these two complementary spiritual and secular structures of the national life that we shall be in a position to create a prosperous and decent future for our people. ....

... The Church's property, held in a nationwide ownership, has served and shall continue to serve the national purposes in ecclesiastical, spiritual, cultural, educational, economic and other spheres of societal life...

... Let us have confidence in our triumphant capacity to be unanimous. May God fortify us all in our duty. May His True Spirit, His Kind Spirit lead us to the land of the righteousness, to the light of wisdom. ...

... May the Grace of our Lord Jesus Christ and God's Love be with you all. Amen"

**Excerpts from the Official Message (Kondak)  
of His Holiness Garegin II,  
Supreme Patriarch and Catholicos of All Armenians**

The adoption of Christianity as a State religion by Armenia 1700 years ago was, above all, a universal achievement for the entire civilized world. This historic event - a nationwide Conversion in A.D. 301 - symbolized the beginning of an era crucially important for the entire Christian world.

It also provides convincing evidence that, in principle, the country embraces new criteria (anchored in hope, love, tolerance and compromise) for State governance, inner structures and for its relations with other countries. It is a blessed system of human, social and inter-State relations, which for the first time was officially put into operation 1700 years ago (in Armenia, as circumstances would have it), and for which now the entire civilized community worldwide is striving.

The celebration of this jubilee as a State event is symbolic in the 21st century since the concept of "State" is today in need of incorporating "humanism," "charity," "compassion," "mutual respect," "human dignity," and other crucial components of the Christian lifestyle.

**Holy See of Etchmiadzin**

## The Armenian Apostolic Church and Human Development

The activities of the Armenian Church, especially during the first decade of Independence in the Republic of Armenia, for the most part focused on social, educational and charitable contributions, albeit modest, were well focused, specifically targeting and reaching the most vulnerable social groups. In an effort to ensure decent living standards for the neediest elderly, nine charitable soup kitchens, serving each about 200 free meals daily, operate (in the Ararat, Armavir, Kotayk, Gugark, Gegharkunik and Syunik dioceses) with the Holy See's funding within the framework of the implementation of the Armenian Church's Social Services Programs. These Programs also provide for social groups that usually escape public attention, financial and material assistance. The Armenian Relief Fund provides food, medication and clothing.

Over 150 Sunday schools with over 5,000 students operate in Armenia under the patronage of the Armenian Apostolic Church (AAC). Efforts currently underway to establish church services in penitentiaries are carried out on the basis of relevant experience gathered and studied from the civilized countries of the world, Britain first among them.

The World Council of Churches (WCC) has established a Round Table in Armenia which has been implementing 53 projects in the social sector, in small business development and in spiritual and general education (computer training). The WCC Round Table collaborates with the AAC diocesan leaders in Armenia and involves representatives of the Armenian Catholic and Armenian Evangelical Churches as well as some NGOs in its activities.

In the RA Armed Forces, 25 AAC clergymen perform their mission and at least 60 more are involved in providing spiritual service for all army units and subdivisions. In order to provide that structure with the appropriate charter the Armenian Church collaborates with the RA Ministry of Defense and the draft charter has already been prepared.

The Nork, Arabkir and Malatia "Houses of the Children" (orphanages) that operate entirely under the auspices of AGBU and the Holy See of St. Etchmiadzin provide children and adolescents training in crafts, music, sports, dance, etc. while at the same time strive to raise them as true Christian Armenians. A Center for Miniature Art operates in Kanaker, where children master the art of the medieval Armenian miniature painters and scribes and also receive a general education in the arts. These unique educational centers employ 230 expert teachers. Over 3,000 children and adolescents attend these classes and also receive moral instruction. Youth Unions operate in affiliation with the "Houses of the Children".

### Information System St. Etchmiadzin

Throughout its history, the Armenian Apostolic Church, in addition to its spiritual-religious mission in the life of the Armenian nation, has performed the function of preserver of the national identity in educational, scientific and cultural spheres, has led the national liberation struggle for centuries, and has been the most influential ideological, sociopolitical factor for our people.

During the short and difficult period of the first Armenian Republic (1918-1920) a draft agreement for an alliance between church and state was prepared for the purpose of defining the legal status of the Armenian Church, increasing its role in the state, and regulating its relations with the state. However, due to the establishment of the Soviet regime in 1920 this agreement was never finalized. During the first decades of the Soviet era hundreds of clergymen were tacitly persecuted and numerous churches were either destroyed or closed. Although many churches and historical monuments were reconstructed during the post-war decades, church activities were constrained by the limits drawn by the authorities.

The status of Armenia's religious life changed drastically

after 1991, when the Law On freedom of conscience and religious organizations was adopted, (subsequently modified and amended in 1997). The Constitution of 1995 guarantees the freedom of conscience and religion for every citizen (Article 23) and bans the promotion of religious hatred (Article 48). Following the adoption of Law, 50 religious and church-based benevolent organizations were registered, representing different 13 religious and confessional denominations.

The Armenian Apostolic, Armenian Catholic and Armenian Evangelic Churches are implementing coordinated Christian and charitable projects. Hundreds of good deeds have been carried out by the Jinishian Memorial Fund, the Armenian Biblical Association, the branch of the ECLOF, and The Armenian Round Table of the World Council of Churches. In addition to joint projects, the above-mentioned groups and other churches and religious organizations are also implementing specific charitable activities.

The past ten years of independence have opened wide the possibilities for the Armenian Church. It was necessary to fill the gaps of the preceding years in a relatively short time.

Destroyed churches were restored, new ones constructed, the diocese re-structured, spiritual, educational and cultural institutions have been established (Box 1). In 1991 the Vazgenian School in Sevan was opened, followed by the Spiritual School of the Shirak Diocese, and the number of students at the Spiritual Seminary of the Holy See of St. Etchmiadzin increased. The list of spiritual, religious-cognitive, Armenological and theological books published at the printing house of the Holy See multiplied during recent years. Under the patronage of the Holy See, the following TV programs are broadcast on a regular basis: Kantegh (oil-lamp), Siretsek Zmimians (Love Each Other), Khoran Luso (Sacristy of Light). Shoghakat TV studio periodically covers the spiritual life of the Holy See and its Dioceses. The exhibition "Treasures of the Armenian Church," which has traveled to various countries, provided an opportunity to thousands of visitors to become acquainted with the spiritual and hand-made values of our ancient history.

Over the past 10 years of independence numerous issues have been raised between the state and the church: restitu-

tion of property, artwork, items of worship expropriated during the Soviet period, the increasing role of the Armenian Church in education, culture, health care, social services. Eighty years after the first "Alliance Agreement" was drafted, a Memorandum of Intentions was signed in 2000 between the Armenian Government and the Armenian Apostolic Church to address these issues. In accordance with the spirit of the Memorandum, Decision No. 616 (adopted in 2001) mandated the Government's return of 156 cathedrals and churches back to the Armenian Apostolic Church (Box 2). During these years other churches were given back to the Armenian Catholic and Russian Orthodox Churches.

Hundreds of thousands of believers and pilgrims, both Armenian and from the Diaspora, spiritual leaders and servants of sister churches all participated in the splendid celebrations and spiritual events dedicated to the 1700th anniversary of the adoption of Christianity as a state religion. This is clear evidence of the revival of the Armenian Church's international reputation and the spirit of the Armenian nation.

## 2 BOX

### Preservation of Monuments in Armenia

Over the centuries, Armenians have established many monuments. Of the 30,000 historical-cultural masterpieces registered in Armenia, Christian monuments occupy a significant place. They are considered state property and until recently were managed exclusively by the RA Department of the Preservation of Historical and Cultural Monuments. This Department was established in 1920 and since then has been renamed, reopened and transformed several times, and has continuously carried out the official registration of ancient historical-cultural monuments, their surroundings, and the management and monitoring of their preservation, rehabilitation and utilization.

The Department has partially or completely reinforced and restored about 300 monuments, including churches and monastic complexes, and has transferred the majority to the Holy See St. Etchmiadzin's directorate (Gndevank, Kecharis, Haghartsin, Haghpat, Hayravank, Haritchavank, Makaravank, Makenyats vank, Noravank, Sanahni and Sevani churches). For the most part, these structures are used in accordance with their primary functional purpose and are subject to regular restoration and care. The RA Law "On the Preservation and Utilization of the Historical and Cultural Monuments and Historical Environment" adopted in 1998 gives the country certain rights in regard to Armenian historical and cultural monuments abroad. As a result, the Department has participated in the restoration of a Tsortsori church and the St. Tadev monastic complex in the Islamic Republic of Iran, and has shown its readiness to participate in the restoration of Ani cathedral envisaged by the Turkish Ministry of Culture.

This law regulates in detail the responsibilities of related entities and ownership rights on the monuments and the premises. Currently reinforcement and restoration, in line with the projects developed by the Department and under its monitoring, are carried out in several churches and monastic complexes of the Holy See St. Etchmiadzin.

Initiatives on the part of individuals and organizations in some settlements for restoring and re-opening semi-destroyed churches in cooperation with the Department are gaining momentum. Thanks to the joint efforts of the Department and the International Council on the Preservation of Historical Environments, Haghpat, Sanahin monastic complexes, Geghardavank, Cathedral of St. Etchmiadzin and its churches, and the Zvartnots historical and architectural preservation have been included in the UNESCO World Heritage Journal.

**Gagik Gyurjyan,**  
*Head of RA Department of the Preservation of  
1Historical and Cultural Monuments*



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**Democracy**  
in the realm  
of political  
administration

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## The Republic of Armenia's decade of independence

Ten years have passed since the Republic of Armenia regained its independence. It is a long enough period that affords an opportunity for evaluating results and for comparing opportunities, expectations and achievements. In such a brief presentation it is virtually impossible to do justice to all aspects of such intricate political, legal and social processes. Nevertheless, we will try to review briefly a few, juxtaposing political theory, Armenian reality and certain historical parallels.

It is well known that a state's independence is characterized by a certain territory, by the population permanently residing on it, by complete sovereignty over the given territory, by international recognition and by a number of other factors. Given such generalized formula, it has to be noted that for almost ten years this country has indeed been independent.

The validity of this traditional formula notwithstanding, we need also to emphasize that within the past few decades the idea of independence has expanded to incorporate new, additional criteria. The state's economic security (independence), its current level of democracy and social security and the population's welfare have become separate from political, military and other standards and have acquired an intrinsic value in the security and independence systems. Nevertheless, in Armenia these spheres are still far from an appropriate level. The pace of their progress (if any) cannot be considered satisfactory.

Armenia was always in the forefront of the democratization process during the past three phases of its recent history. Even as part of the USSR (1988-1991), Armenia's independence movement was gaining momentum. Steps toward building democracy were taken during the initial formation of the Third Republic that was created within the Soviet Union and then later as part of the CIS. However, a few years later the situation changed dramatically, as witnessed by the change of power which occurred in an emergency before the President's term of office expired. Most recently, parallel to the process of integration into European structures, some efforts were made to improve the situation.

Nonetheless, democratic practices in a number of sectors of immediate significance for individual citizens have

yet to reach satisfactory levels. One such area in need of much improvement is access to justice. This situation is conducive to a rise in the discontent of the public at large.

Once the Soviet Union disintegrated, Armenia found itself in a most precarious situation, as compared with other post-Soviet newly independent states. Problems common to all the newly independent states, caused by the collapse of the centralized economy, were exacerbated in Armenia by the consequences of the earthquake, the conflict with a neighboring country as well as by refugees and an economic blockade. Under these circumstances the country's leadership initiated a radical restructuring of the economy and a process of decentralization. The latter, albeit unquestionably imperative, was implemented under difficult conditions. Top ranking administrators were not prepared, professionally, for this task. Their ideas on restructuring methodology were over-simplified and based on "textbook" perceptions. Such an approach, compounded by the continuous negative impact of the above-mentioned factors, brought about a breakdown of the entire economy, social polarization, mass out-migration of local manpower and, eventually, a total dependence on foreign financial and economic centers. It must be noted that the restructuring process was marred by large-scale abuses. Those in power took advantage of the vulnerability of individual citizens who lacked legal and social protection. This had an adverse impact, in turn undermining the confidence of the people in the State.

For all of the factors mentioned above, within a certain portion of the population negative attitudes to the very idea of independence have come to replace the initial idealistic perceptions. Armenia's independence has come to be professed as an underlying cause for current privations. Historical experience shows that such perceptions are quite stable and have a significant capacity for destruction even when they do not lead to social upheavals. They tend to perpetuate a distorted perception of the State by the general public and a loss of its significance in the public eye. The resulting "it is not my State" corollary and generate social apathy can, if unchecked, pose an imminent threat to a state's independence (Box 1.1).

## 1.1 BOX

### Assessment of the results of independence

When over ten years ago some people in Armenia entertained an idea of seceding from the Soviet Union and of achieving independent statehood, very few believed it was realistic. Public opinion polls conducted in March 1991 revealed the entire range of all the concerns and anticipated dangers that existed at the time. The majority of the people were skeptical about the ability of an independent Armenia to exist without the support of the Soviet Union or Russia. The Disaster (earthquake) zone residents objected strenuously to the idea of seceding from the Soviet Union. They were convinced that their ruined villages and towns were not going to be restored if, by becoming independent, Armenia would be deprived of support and assistance from fraternal Soviet Republics. The second argument (that came close to the first one) against independence was neighboring Turkey. In the estimation of many respondents, occupation of Armenia would be a matter of a few days.

Today the citizens of independent Armenia point to society's liberalization, broadening citizens' rights and tangible successes in foreign policy as the most crucial achievements of the last ten years. The formation of a strong and efficient army that achieved hard-won victories and helped overcome the "victim complex" is also seen as a notable accomplishment. Formal recognition of the Genocide by many countries has inspired the people's confidence and belief that they are capable of protecting their national interests. Ties between Armenia and the Diaspora have grown stronger and more diverse. They are not merely cultural but also economic and political in nature.

The above-mentioned achievements notwithstanding, the past ten years brought new problems and inflicted losses. The enormous migration flows have fundamentally changed the traditional makeup of the society. Economically weak, blockaded Armenia failed to provide a decent life for the 360,000 ethnic Armenians who were forcibly expelled from Azerbaijan. A large-scale emigration, too, has had a strong negative impact.

Serious demographic changes have occurred in the society. The percentage of women and the elderly has increased whereas that of young, active people, who could become a core of the middle class, has declined. Natural population growth has decreased as has life expectancy and the numerical strength of ethnic minorities, whereas the ranks of the risk groups and marginal social groups have been swelling. A sizeable share of the population lives below the poverty line. Poverty and unemployment, prostitution and drug abuse, lawlessness and corruption have become a reality of everyday life making some people nostalgic for the communist system. That, in turn, leads to a devaluation of new, fledgling democratic values. The transition period in Armenia is dragging on and is turning into a genuine tragedy for many people by undermining the foundations of what they see as an appropriate way of living. The reforms have exacted a high social cost from Armenian society.

The just settlement of the Karabakh issue, the lifting of the blockade of Armenia, the overall prevalence of justice and gradual economic resurgence will be required to vindicate the losses incurred by the society and make them meaningful.

**Gevorg Poghosian**

*President of Armenian Sociological Association*

The developments mentioned above began almost a decade ago. Their negative dimensions are still prominent, especially in economic and social spheres, which are most important for the people. Subsequently, the possibility of their essential influence on the whole structure of Independence still holds. Among the positive

changes (e.g. safeguarding freedom of speech, beliefs and political activities) and opportunities brought about by Independence, the Armenia- Diaspora relations are worth mentioning, as they could potentially result in outstanding possibilities for cooperation.



## Armenia-Diaspora relations

As an independent state and a subject of international law, the Republic of Armenia faced new challenges which were not necessarily and immediately perceived by the Diaspora, since such an historical development was rather unexpected.

Only ten years ago the two branches of the Armenian nation were given unlimited opportunities to decide for themselves which directions and forms of mutual relations would be most beneficial. Both parties have made concerted efforts to meet each other half way. However, much more is yet to be done. Along with the desire to move and act in concert in political, social and ideological fields, many kinds of moral-psychological, historical and social issues and aspirations have surfaced and have even gained prominence.

In the first years of independence the traditional Armenian political parties (Armenian Revolutionary Federation, Liberal Democratic Party, Hnchakian Social Democratic Party) returned to the Homeland. They invigorated the national spirit and brought about a liberalization, which, at that time, became a foundation and cause for free "competition" of political and civic associations. This has been a remarkable phenomenon that can be accounted for, first of all, by the independence gained and the establishment of democratic principles and fundamental freedoms in the Republic of Armenia. Today, however, the situation is entirely different. The Homeland is gradually becoming a pacesetter for the traditional Armenian political trends and a generator of new ideas in the nation's political thinking, since everything that had been imported has been mastered and exhausted. Besides, the needs and imperatives have changed, too,

which in fact manifested the next phase of Armenia-Diaspora relations. Political parties that have struggled and survived in foreign lands for decades will have to challenge new areas of responsibility and long-term goals in Armenia. As fast-growing opinion has it, it is likely that very soon Armenia will be "exporting" to the Diaspora fundamental conceptual frameworks for all traditional political parties and large non-governmental organizations.

The Armenia-Diaspora Pan-Armenian Conference held in Yerevan on September 22-23, 1999 confirmed, in a sense, the leadership role and significance of the Homeland. Various representatives of Armenian communities from more than 50 countries attended the Conference. Their presence was compelling evidence not only of a common history and destiny but also of common goals and objectives shared by all Armenians worldwide for the near future. These goals include, among others, a settlement of the Karabakh conflict that will be acceptable to the people of Karabakh, the Armenian Cause<sup>1</sup> and the process of international recognition of the Armenian Genocide, economic cooperation and Armenia's firm guarantees for foreign investments, and unification of the two Catholicosates of the Armenian Apostolic Church.

Also within the framework of the Conference a joint Business Forum of the RA and Diaspora business people was held to discuss the principal directions for economic collaboration. Both counterparts stressed in their presentations the necessity of establishing reliable means for information sharing and promoting the communications industry (Box 1.2).

### The Armenian Diaspora as a significant factor of economic development

The large, affluent and seriously motivated Armenian Diaspora certainly represents Armenia's significant competitive advantage and must become one of the benchmarks in developing foreign economic policy (Table 1).

In the current investment portfolio the majority of the largest investment programs are related in some way to the Diaspora. Quantitatively, enterprises created with the participation of foreign capital (PFC) were founded mostly by investors from countries with a large Armenian community (RF, USA, Iran, France, etc.) and this tendency still holds. This can be proved by the current, as well as anticipated investments in metallurgy, information technologies, tourism and instrument production.

The Diaspora is the main investor in Armenia's economy, hence a special strategy must be developed and conducted towards it.

<sup>1</sup> "Armenian Cause" (belongs to Armenian Revolutionary Federation) through its commissions worldwide protects the demands and national

Table A	Countries	Enterprises, registered with PFC (total 1908)*	%**	Diaspora Population***
	Russia	457	23.9	2.5 - 3 million
	Iran	396	20.8	170.000 - 200.000
	USA	276	14.5	1 million
	France	75	3.9	350.000 - 400.000
	United Kingdom	57	3.0	6.000
	Georgia	56	2.9	450.000
	Lebanon	55	2.9	100.000
	Syria	41	2.1	60.000
	Germany	40	2.1	20.000
	Canada	30	1.6	50.000
	Cyprus	30	1.6	3.000
	Bulgaria	27	1.4	Over 10.000
	Other countries	368	19.3	

\*Source: RA NSS (January, 2001); \*\*Ibid; \*\*\* RA MFA.

### Programs realized by the "Lincy" Foundation

Of all the programs carried out by Diaspora organizations, those conducted by the "Lincy" Foundation (Lincy) are the largest and longest running, and they have become a decisive factor in the country's economic development.

In 1998 an investment program was signed by Lincy, the RA Government and the RA Central Bank which was directed at the development of small and medium sized business. Businessmen could obtain credit for not more than 15% per year. The main goal of the program was poverty reduction, job creation, production growth and the development of the services industry.

A new "Memorandum of Understanding" was signed between Lincy and the Government in November, 2000, according to which new financial resources were added to those as yet unspent. The program's overall cost was 165 million dollars (\$75 million are credit resources, \$90 million - grants). In this framework, 2 credit programs and 5 grant programs are underway.

For the first credit program, which was designed to develop small and medium sized business, 20 million dollars of the resource "portfolio" (\$45 million) were allocated. Good examples of effective and successful investments can be found in the Ararat and Artashat cannery (round \$4 million), a paint production facility owned by the "Shen" concern, exploitation of "Armavto" cast-iron melting facilities, as well as the establishment of a Dutch green-house business. As of July 2001, 44 programs have been financed, the majority of which belong to the industrial sector. This constitutes about 62% of the amount spent. The remainder of the projects are related to the agricultural and services sectors. Projects financed by the Lincy Foundation have another important component. Jobs have been created as a result of these projects (directly, about 2,000 and several thousand, indirectly) not only in Yerevan but also in Kotayk, Ararat, Armavir, Lori, Gegharkunik and Aragatsotn marzes.

The second credit program (\$30 million) strictly focuses on promotion of foreign investment in Armenia's economy. Investors who plan to set up business in Armenia may apply for credit. Through this program the state in fact offers the foreign investors to share their risks.

The following 5 projects will be carried out in the framework of project grants: housing construction in the Disaster zone (\$15 million), road network construction and renovation within the Republic (\$38 million), reconstruction and renovation of about 20 historical and cultural monuments (including Matenadaran, the Opera and other theaters, historical and cultural museums, etc - \$10 million), development of tourism infrastructure, including Tsakhkadzor ski resort, establishment of Armenian International Youth Center, hotel complexes (\$20 million), renovation of the center of Yerevan (\$7 million).

**Narine Sahakyan**

The establishment of the *Hayastan* Pan-Armenian Fund in March 1992 was indeed well timed. Its major objectives are assisting Armenia's economic development and reforms, improving research, education, culture and health care systems, overcoming the grave consequences of the devastating earthquake of 1988 and contributing to the implementation of projects that benefit the Karabakh Armenians and Armenians forcibly deported from Azerbaijan and other projects of pan-Armenian importance.

Most notable among the numerous projects implemented by the *Hayastan* Fund within the past few years is the *Goris-Stepanakert Highway*. This was successfully completed and put into operation in November 1999 and links Karabakh to Armenia. Most of the funds for this project were raised by a Yerevan-Los Angeles telethon that has now become a tradition.

Within the past few years, the question of international recognition of the Armenian Genocide, as a national idea and a common "value", has become one of the most important guarantees for coordinated activities between both western and eastern parts of the nation. Nevertheless, this process requires that the approaches and joint actions from the Diaspora and from the Homeland be more precise, since it is now obvious that the recognition process will continue at the level of international organizations and bodies, in parliaments of advanced countries and in reputable commissions.

Today the Armenian lobby is widely spoken of in the world, especially in connection with the ongoing process of gaining international recognition (by France, Russian Federation, Greece, Lebanon, Cyprus, Argentina, Uruguay, etc.) of the Armenian Genocide perpetrated in the Ottoman Empire between 1915-1923.

Lobbying at the community level by ethnic minorities worldwide serves the needs of the natural, albeit complex, process through which they assert themselves. The Armenian lobbying experience has shown that the issue is beyond the narrow boundaries of a community, i.e. the goal is much broader. In fact, it is nationwide. At the same time, any initiatives, however important and responsibly undertaken, should never endanger the Motherland and the Armenians living there. While describing Armenia-Diaspora relations over these ten years of Independence it is worth mentioning some of the organizations active in promoting these relations and among them is Armenian Assembly of America (AAA), the largest organization in the U.S., headquartered in Washington, DC, which promotes public understanding and awareness of Armenian issues (established in 1972). Its programs encourage greater Armenian-American participation in the American democratic process and the civic and economic development of Armenia and the unfettered right of Nagorno Karabakh to self-determination. Current developments in Armenia are at the center of Assembly's attention, hence separate

structures constantly work with the US Congress and Administration. Among the Assembly's many successes are leadership in advocating for formation of the Congressional Caucus on Armenian Issues (now totaling 105 Members), initiation and establishment of the Armenian National Institute dedicated to the study, research, study and affirmation of the Armenian Genocide, and substantial U.S. aid to Armenia and Nagorno Karabakh.

The Armenian General Benevolent Union (AGBU) was established back in 1906 in Cairo. It contributed significantly to repatriation after the World War II. About 50 years later AGBU resumed its activities in the Homeland. It gives preference not to humanitarian assistance but to important projects that propel the country's development forward. AGBU is a principal sponsor of the Cathedral that is being constructed in Yerevan. In 1999 it was one of the sponsors of the First Pan-Armenian Games and of the Armenia-Diaspora Conference (mentioned above). It also sponsored the establishment of the American University of Armenia.

The role and significance of another US-based Armenian organization, the Armenian National Committee, in the fair treatment of the Armenian Cause and the Genocide issue can hardly be overestimated. The ties of this organization with the Homeland are strengthening day by day.

Large community-wide Armenian organizations and associations operate also in France, Russia, Lebanon, Iran, Greece, Argentina, Uruguay, Australia and elsewhere. Nonetheless, presently, it is impossible to unequivocally define the common national mentality of Armenians living outside Armenia. Each individual's origin, upbringing, economic and political conditions of a given country as well as generational and other factors determine a sense of identity. Hence, there is certain dichotomy present in the civic, psychological-moral and even national identity of Diasporan Armenians. Many of them are, on the one hand, full-fledged citizens of their country of residence. They bear the social norms of their given society. On the other hand, they are members of an ethnic community. This duality leaves its imprint on attitudes and values. The two separate versions of the Armenian language (eastern and western) also have quite a tangible negative impact and there is no easy way to solve the problem. Thus, serious discussions about nationwide values, i.e. values that are unquestionable for both parts of the nation, and about their common elements, significance and promotion are absolutely necessary.

Strange as it may seem, it is a fact that the Diaspora does not have an unambiguous attitude towards the much-debated issue of dual citizenship. Contrary to the widely held impression that the majority of Diasporans are in favor, in fact the communities that are striving for it are few, since dual citizenship is closely related to a number of serious factors and local civil laws.

Perhaps it is still early, but in the near future it would be advisable to avoid State, official coordination of Armenia-Diaspora relations and the establishment of formal Councils and Commissions. Now, after 80 years of barriers and isolation, we seem to have entered a new historical period of rediscovering each other in a new capacity.

The moral-psychological gap is predicated on the legal status of each of the parties. We believe that

✎ the status of Diaspora Armenians in the Homeland should be changed. Flexible laws should outline clearly certain obligations and, of course, their privileges;

✎ the status of Armenians who left this country in the new wave of emigration in the 1990s within the traditional Diaspora structures should be clarified; in general it is becoming an urgent matter that their integration should be facilitated, as full-fledged members, into organizations that operate in the communities abroad.

Answers to the problems outlined above will be forthcoming when the conditions of supremacy of law, lawfulness and democratic values and the consolidation of democracy can be secured.

# 1.3

## Strengthening of the rule of law

As a result of the elections conducted on May 20, 1991, which were the first elections held on competitive basis in the history of the Soviet Union, the Communist Party lost power. This served as a catalyst for initiating the establishment of a multi-party system in Armenia. The Armenian National Movement (ANM) came to power. The 1990 August 23 Declaration of the Supreme Council marked the beginning of democratic reforms. The newly elected Parliament (formed before the declaration of Armenia's independence) set out immediately to form a legislative basis for societal democratization. The Laws *On ownership* and *On foundations of privatization in the Republic of Armenia* (adopted respectively on October 31, 1990 and December 13, 1991) provided the legal basis for a transition from the State monopoly to diverse forms of ownership of the means of production. The transition to pluralism and a multi-party system was effected by the 26 February 1991 Law *On non-governmental political organizations*. Freedom of speech and of information dissemination was secured by the 8 October 1991 Law *On the press and other mass media*. On June 17, 1991 the Law *On freedom of conscience and religious organizations* was adopted in order to safeguard the freedom of belief. The democratic legal norms stipulated by these and other laws were also reflected in and

advanced further by the 5 July 1995 Constitution. In 1996 the National Assembly adopted the Laws *On local self-government* and *On the election of local government units* which provided legal groundwork for the elections of local governments that took place on November 10 of that year. On November 1, 1996 the Law *On non-governmental organizations*, which was a major contribution towards the building of civil society, went into effect.

At present many of the democratic norms that underlie the Constitution and laws adopted within the past ten years need to evolve further. This is also testified in the *Resolution on Armenia's accession* passed by the Parliamentary Assembly of the Council of Europe. The Resolution calls upon Armenia to meet certain commitments, including the accession to European Conventions and adherence of national legislation to European democratic standards (Box 1.3). Currently laws are being drafted which will be in harmony with those of European democracies. To expedite the process, specialists from the Council of Europe are providing expert opinions and advice. Work on constitutional amendments, underway already several years, has come to an end and the package of constitutional amendments is ready to be discussed in the National Assembly.

## Armenia's first steps as a member of the Council of Europe

1.  
BOX

The Republic of Armenia became a member of the Council of Europe (CoE) on January 25, 2001. As a political entity, the CoE promotes political stability, economic and social progress, democracy and human rights protection in Europe. The unified standards and approaches have been designed to address the above issues and to ensure progress in that field. On March 11, 2001 the RA Foreign Minister signed in Strasbourg the European Conventions *On Extradition*, *On Mutual Assistance in Criminal Matters*, *On Laundering, Search, Seizure and Confiscation of the Proceeds from Crime* and *For the Prevention of Torture and Inhuman or Degrading Treatment or Punishment*, the *European Charters of Local Self-government* and *For Regional or Minority Languages* and the *European Agreement on the Abolition of Visas for Refugees*. It is anticipated that the legal instruments mentioned above will be ratified within the proposed timeframe. Armenia also deposited the document about accession to the *Convention on the Transfer of Sentenced Persons*.

**Khachatur Bezirjyan**

With passage of the Law *on non-governmental organizations*, Armenia in fact developed into a multi-party system. The abolition of the Communist Party's monopoly was a necessary, albeit insufficient, precondition in the process of reforming state machinery.

The gap created by the collapse of the one-party system was filled after the Laws *On the RA President* and *On the election of the RA President* were adopted on August 2, 1991. Through those laws and with further reinforcement by the RA Constitution (1995), a semi-presidential system of government was introduced in Armenia with a skewed balance between the authorities and responsibilities of the President, as many political forces assess it. Since 1995 this issue has been raised repeatedly and it is no accident that reconsideration of the President's authorities is included in the package of Constitutional reforms.

However, legislative changes and initiatives have not turned Armenia yet into a state "ruled by law" in the literal sense. One of the most important reasons can be found in the fact that, despite large-scale reforms in the judicial system, the independence of the judicial authority as proclaimed in the RA Constitution has not become a reality yet.

Of the three main functions of the judicial authorities - 1) exercise of justice; 2) judicial oversight; 3) judicial control over laws, the activities of the judicial authorities in Armenia are limited to the first two functions (the third is not envisioned by law) and they are not implemented to the fullest extent. At the same time, a judge's selection, candidature, designation, suspension of duties, and promotion are all carried out with overwhelming involvement of the executive authorities. This essentially hampers the independence of judges.

At present the efficiency and quality of examination of economic disputes are particularly low. Delays and red tape are counterproductive to the country's economic development and pose an obstacle, albeit indirect, to investments. In order to rectify the situation a two-level court system has been proposed for hearing economic disputes in parallel with the three-level court system currently operating in the Republic of Armenia. It will be composed of the courts of first instance for commercial cases (the relevant draft law has already passed the first reading in the National Assembly) and of the court of appeals (for more details see NHDR 2000).

One should mention in the first place that, because Armenia has been deprived of statehood for centuries, traditions and the mentality of "non-rule of law" states have been inherited. Elimination of these traditions in a decade is impossible. It will take a few generations. These traditions are embedded not only within the circles of authority, but also in the public's perceptions. The authorities should, by using legislative and management tools, and through the enhancement of legal education, contribute to the change in mentality and the establishment of a truly independent judicial system.

All these, in turn, are among the main guarantees for the protection of human rights. Through the August 23, 1990 Declaration, Armenia in fact adopted a new value system, reinforcing its commitment to the principles of democracy and human rights (Box 1.4). After Independence, the Republic of Armenia as sovereign entity acceded to and joined the major human rights conventions and agreements, as well as initiated the work on reforming domestic legislation in this sphere (see NHDR 2000). The second chapter of the RA Constitution reinforced basic human rights and freedoms.



## 1.4 Human Rights Issues in Armenia

BOX

An overview of Human Rights (HR) developments in Armenia over the past ten years reveals that the main reason for HR violation is the flawed implementation of laws. Often the principle "everyone is equal before the law" does not work: people are more protected by their position and standing rather than by law. Of course, the State is the main HR guarantor. However Armenian society in turn does not realize the necessity for HR protection, which is a serious problem. Sometimes, large layers of society react to HR violations in this or that sphere driven by their political orientations and preferences rather than HR principles.

The most remarkable achievement in the sphere of HR over the past ten years is the freedom of speech, some current difficulties and shortcomings notwithstanding. Freedom of association (non-governmental, public-political organizations) is another major achievement of the past years.

The bulk of HR violations in Armenia refer to torture, inhuman and degrading treatment of citizens by law enforcement bodies. Though complaints and claims are continuously made, no investigations have been carried out in regard to accusations of torture (the only exception is the case of the death of an officer who died of torture in an isolation cell in 1999).

The courts continue to use arrest as the main means even for cases which do not pose any danger for society.

Brutal hazing is wide-spread in the army, and very often results in casualties.

Despite the continuous improvement of Electoral legislature, different types of violations were observed both by local and international observers during the 1995, 1996, 1998 and partially the 1998 presidential and parliamentary elections.

In 2000-2001 HR non-governmental organizations observed that the authorities imposed some limitations on the right to hold peaceful meetings, demonstrations and processions. For instance the Armenian Helsinki Committee is aware of nine cases when the requests of opposition political forces for rallies, demonstrations as well as meetings were turned down, while the punitive machinery was put into effect in cases when they were held.

By accession to the Council of Europe, Armenia has undertaken certain commitments, including the signing and adoption of a special section in the Criminal Code abolishing the death penalty, demilitarizing imprisonment and detention systems by transferring them from the supervision of the Ministry of Interior Affairs and National Security to the supervision of the Ministry of Justice, adoption of a law on alternative military service and ensuring a non-discriminatory attitude towards all minorities.

**Avetik Ishkhanian**

*Chairperson of the Helsinki Committee of Armenia*

Another important path leading to a "rule of law" state is the clear and precise determination of the scope of authorities for state power. While determining the limits of those powers, one should first of all proceed from the necessity to secure the human rights protection and the unconstrained operation of civil society. The relations between the State and the individual should be based on reciprocal responsibilities. It is also crucial that there be a public awareness of the profound difference between a citizen and a public official (a State body). A citizen is free to do what is not expressly prohibited by law, whereas "the State bodies and public officials shall be allowed to take only such actions as authorized by the legislation" (*RA Constitution, Article 5*).

The separation of powers between the legislative, executive and judicial branches of government is one of the safeguards against the monopolization of power. In order to ensure the constitutionally stipulated independence of the branches from one another, a system of checks and balances operates. The system is essentially a single whole of certain limitations for each branch

and of mutual restraints. The RA legislation, too, is based on the principle of separation of powers of the branches. However, the major reason why it does not function properly is more in the lack of implementation mechanisms combined with subjective reasons rather than imperfection of legislation.

Parliamentarians are, for example, prohibited from holding a government position or to be otherwise gainfully employed, with the exception of research, teaching and artistic activities. However, the National Assembly formed as a result of the 1999 elections comprises a large number of businessmen. Having in fact preserved their leading positions in businesses, they have formally assumed the non-profit positions of presidents of business or enterprise boards. The majority of political activists see the solution to this problem in replacing the existing majoritarian/proportional vote entirely with a proportional one. That is the principle of party list elections. However previous experience shows that businessmen have been very successful in getting into the Parliament through proportional votes too. It is necessary that at

least the core of the political parties consist of professional and experienced professional functionaries who would become cadre for the parliament. The same problem resurfaces whenever a Government needs to be formed. The policy formulation and political decision-making are the undertaking that requires engagement of highly professional politicians.

Transparency of government operations is an important component of a democracy and a factor that

may contribute significantly to the separation of powers. Only through the transparency of authorities' operations can the feedback be ensured which makes it possible to keep the public at large informed about the implementation of reforms. This in turn would turn people into supporters and active participants of the policies. It would also help to gauge public sentiments and make necessary adjustments in the strategic course.

# 1.4

## Consolidation of democratic political institutions in the Republic of Armenia

### 1.4.1

#### Elections

Free and fair elections are the most important prerequisite for democracy. Elections are free if a citizen takes part in voting and makes his choice without any fear of suffering grave consequences for doing that, and fair if all votes cast carry the same "weight". Though the 1990 elections were held in Soviet times, the elections were free and fair and the forces that received the vote of the people came to power. In Armenia's post-independence period, the following elections took place: regular presidential (in 1991 and in 1996), an extraordinary presidential election (in 1998), two regular general parliamentary elections (in 1995 and in 1999) and two regular local government elections. However, it could be said that no change of power, in its classical sense, has happened in Armenia. Starting with the 1995 elections, numerous organized groups came to the Republic of Armenia on observer missions. Only the observer missions of the OSCE Office for Democratic Institutions and Human Rights (ODIHR) met the international standards set for the observer missions.

According to OSCE/ODIHR observers, the elections of 1995 were evaluated as free but not fair. The 1996 presidential elections raised a wave of indignation in all sectors of the population. Significant progress was observed during the 1998 and 1999 elections, however if the authority leverage factor was critical in the former, financial matters prevailed in the latter. At the same time, the OSCE/ODIHR has reported that, after the 1995 parlia-

mentary elections, each subsequent election represented a new step on the way towards meeting the criteria established by OSCE, which are set forth primarily in the 1990 Copenhagen OSCE document. The latest report by the OSCE/ODIHR observer missions (in 1999) points out, as principal shortcomings, certain violations and flaws, some of which had been mentioned not only in the latest but also in earlier OSCE/ODIHR reports (Box 1.5). Overcoming these shortcomings requires improvement in legislation and mature public awareness. Indeed, in this way tangible progress could be achieved. At the same time, the major prerequisites for holding democratic elections up to Western standards are a viable civil society and other democratic institutions. One of the drawbacks of the current election legislation is that, even though it ensures that suffrage in the Republic of Armenia is *de jure* extended to all citizens who have come of age, in reality a sizable group of voters is deprived of exercising their right to vote. Exceptions are citizens who have been recognized by court as legally incapable as well as those sentenced to imprisonment and serving a sentence that took effect already. Individuals deprived of their voting rights are those who, on election day, are away from their places of residence, perhaps some place else in the country owing to business trips, medical treatment or other reasons, as well as sick persons who are incapable or forbidden by doctors to go to the polling station. Democracy requires universal involvement of citizens in the election process but that has yet to be secured by the Election Code currently in effect.

1.5  
BOX

## Shortcomings recorded during the elections in Armenia

According to OSCE/ODIHR reports, the following principle shortcomings were identified: a) low quality of voter lists, b) violation of time limits set by the election schedule, c) obstruction of free expression of their will at the time of voting by military personnel in active service, d) confusion concerning the possibility for refugees to take part in elections, e) presence of unauthorized individuals in the voting stations during the voting and vote count procedures, f) concerning electoral commissions - 1) organization of elections by political and not by independent body (the unified group of the OSCE/ODIHR observers at the 1995 elections), 2) electoral commissions of all levels are established during the election campaign period as a result of which new members of the commissions do not have necessary experience and sufficient time for properly preparing the elections, 3) the right of political parties to change their representatives in the electoral commissions which makes it virtually impossible to have professional and independent commissions, 4) the identical procedure for the formation of regional commissions, as a result of which they all have the same number of members irrespective of the number of registered voters in the region, which complicates the operation of the Yerevan city electoral commission and of the regional electoral commissions in large regions.

**Khachatur Bezirjyan**

### 1.4.2 Freedom of speech, independent sources of information

Freedom of speech and citizens' free access to information were declared fundamental values of independent Armenian statehood from the very first days of its existence. They are also enshrined in the RA Constitution. Governmental censorship was de facto lifted in 1990 and completely abolished in 1991. The RA Law On the press and other mass media adopted in October 1991 granted the right to establish media outlets to all legal entities and physical persons. In the very first post-Soviet year, a market for multi-party and private periodicals emerged in Armenia. The state monopoly over TV was broken up in 1991 and over radio in 1995.

In reality the practical application of legislatively stipulated media freedoms has encountered certain obstacles. The most important of these is absence of an economic basis for the development of an independent mass media (Box 1.6). However, if the problem is mainly conditioned by the level of the country's economic development, then overcoming other obstacles impeding the freedom of speech depends on the maturity of Armenia's democracy and the legal guarantees of the State.

Independent Armenia has seen the press go through a phase of politicization, due to direct pressure from the authorities and as a result of the red tape which opposition media face when attempting to register. If in the mid 90s several cases of physical abuse towards unwanted journalists were documented, now the tendency to pressure

journalists by bringing them to court has become a trend.

Such outbursts of intolerance towards diverse views and freedom of expression find no support among the progressive forces of the country and are rejected by the Armenian State itself as well as by the logic of society's development. Methods used previously to suppress media have become discredited. It is highly improbable that they will be used again. Furthermore, as a result of Armenia's membership in the international democratic community, new standards and criteria are applied, including those concerning freedom of information.

The Council of Europe presented Armenia with a package of demands, including the adoption of a new law on mass media and transfer of the national TV from State to public ownership and management. Public TV must now be headed by an independent Council. In compliance with these demands, the legal status of State TV changed in early 2001. However, a special report on freedom of speech and information issued last April by the CoE Parliamentary Assembly criticized the RA Law *On TV and radio* for having granted extremely great power to the President over broadcast media. Indeed, the President has been given the power to appoint members of the Public TV & Radio Council and the National Commission on TV & Radio, which regulates the activities of private TV companies.

This episode from Independent Armenia's decade long history testifies to the fact that the country is moving towards democratic reforms. However, these reforms require determination and consistence in practice.



## Who controls mass media content

One of the major obstacles to the growth of Armenia's information sector is lack of economic conditions necessary for the development of independent media. The population's low purchasing capacity, the underdeveloped advertisement market and dissemination constraints (most of the media's products are sold in the capital city) have brought about the mass media's financial dependence on oligarchic circles. As a result, most of the newspapers and broadcast media are catering not to the masses, i.e. to the needs of the public at large, but rather to narrow political and economic interests.

This conclusion is corroborated by ample evidence unearthed by research conducted within the past few years by the Yerevan Press Club (YPC). According to the data of a sociological survey conducted May-June 2001, the country's population gives first preference to international news (57.5%), then to Karabakh issues (46.5%), followed by economic (44.9%) and social (40.2%) issues covered by mass media. News about the State bodies (26.4%) and of political parties (16.2%) are of less interest to the public and were not included in the top ten themes of most interest to newspaper readers.

At the same time, as a review of the Armenian mass media carried out by YPC from 1998-2000 demonstrated, the coverage of activities of the State bodies and of partisan issues occupied a significant place in print and broadcast media (ranked 4th and 3rd respectively).

**Yerevan Press Club**

### 1.4.3 Independent Associations

At present there are around 100 registered **political parties** in Armenia. Even though a sizable portion are still in a formative stage, whereas some do not, in fact, operate, this figure speaks of fragmentation of the political forces. The formation dynamics fare as follows: from 1991-1995, 50 parties were registered (in 1991 - 20; 1992-8; 1993 - 4; 1994-11; 1995-7). If the creation of parties was a natural process in 1991-1992, starting with 1994-1995, on the eve of new elections, artificial parties began to emerge, driven by the political situation. An overview of political history shows that influential parties or those represented in the National Assembly in their majority were registered in 1991-1992 (with the exception of the Armenian People's Party, which is a separate issue). These were, namely, the Armenian Revolutionary Federation, the Armenian National Movement, the National Self-Determination Union, the Communist Party of Armenia, and the National Democratic Union.

In due course, the parties' over-arching goal was to grow large in numbers by artificial means and to serve as structures for elections. The tradition of ill repute in Armenia is to form political alliances on the basis of situational interests rather than ideological commonality. This applies equally to the forces in power and the opposition.

One of the peculiarities of Armenia's current political life is the lack of a clear classification between the victor and the defeated, pro-governmental and oppositional forces. It suffices to quote the opinion of the OSCE/ODIHR observer mission about the political parties taking part in the 1999 election campaign: "In many cases the platforms of political parties did not differ essentially, which made it impossible to draw a dividing line between the opposition and pro-government parties. In many cases it turned out that public confidence in a particular party

was a result of personal confidence in those parties' leaders". The novel notion in Armenian politics of "constructive opposition," for instance, is used to describe those forces or parties that support or assist the authorities. At the same time, there is the notion of "radical opposition" to describe those who reject authorities in all matters. Both seem to be ineffective for the development of the country.

One of the main obstacles to the development of political parties is the ruling party's reluctance to take partisan responsibility for "non-partisan" ministers. On the other hand, some persons in circles of authority declare themselves either non-partisan or change their political preferences depending on the changes in the country's political situation.

Another obstacle is the yet unformed atmosphere of tolerance within a given party. Should any disagreement arise internally, the minority is either ousted or leaves to form a new party: a process of political party disintegration is clearly underway in Armenia.

**Civil society organizations (CSOs)** are equally important components of democracy. Theirs is a different mission. They focus on areas and targets other than political parties and bring together citizens to establish interest groups. Over the past decade they have mushroomed in number. They try to solve the problems they face by either influencing political bodies and public officials directly or by indirect influence through public opinion, political parties and individuals. Interest groups can take the form of **non-governmental organizations (NGOs), trade unions, charitable foundations, and lobbyist groups**, among others. The NGO formation dynamics are as follows: from 1991-93, 505 NGOs were registered, in 1994-1996 -568, in 1997-359, in 1998-400, in 1999-286, in 2000- 287, and as of June 1, 2001-174 NGOs (Figure 1.1).

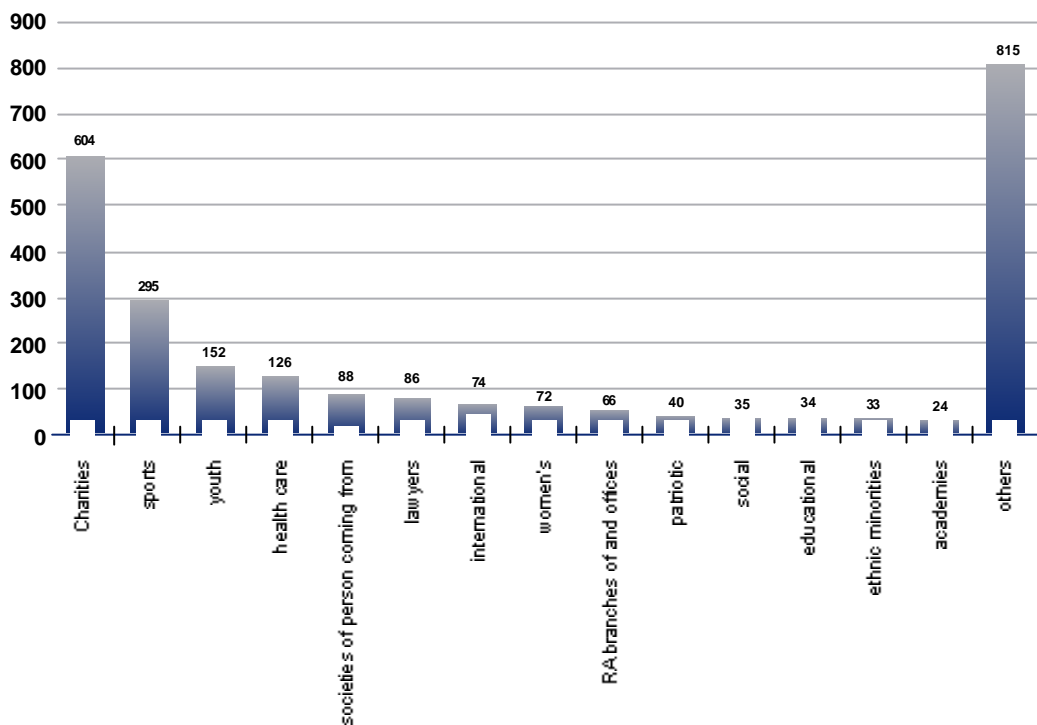
Currently, almost all of them are registered as non-governmental organizations since there is only one law on non-governmental organizations, under which they could possibly register. The only exception is foundations, which are registered under the RA Civil Code. Armenian NGOs are forming councils to establish contacts, exchange ideas, mobilize resources and gather greater consistency for large-scale projects. As of June 1, 2001

there are 2,579 registered NGOs in the Republic of Armenia. According to a recent survey<sup>2</sup>, for the most part NGOs are more interested in social service delivery and in helping disadvantaged groups than in advocacy or advancement of the democratic process. They are quite active in public information and educational campaigns dealing with relatively non-controversial themes related to public order, health, or children's education.

FIGURE

The number of registered NGOs

1.1



Foundations number 226. Among the actively operating NGOs, many carry out their programmatic activities with grant monies received from international and foreign organizations. Trade unions (40 are currently registered) now need to re-register on the basis of a new law *On trade unions* that was enacted by the National Assembly on August 18, 2001. Yet, it is premature to speak about an established civil society. In the framework of a project, "To enhance the efficiency of Radio and TV participation in the formation of civil society," representatives of NGOs, radio and TV companies and individuals from different cities of the country participated in a survey, the results of which are most telling. The numbers of those

who think that the formation of civil society in Armenia has yet to begin and those who think that it is only in an embryonic stage are nearly the same - 25-30% of all who were surveyed<sup>3</sup>.

Each actor's potential commitment to reforms and willingness to collaborate are vital for the solution of problems and for meeting the challenges on the way to achieving the goal of a prosperous Armenia. At the same time it is also important to accept each party's share of responsibilities and powers vis-à-vis the State, civil society and the private sector.

# 1.5

## State governance and local self-government

The citizens of Armenia exercise their power through the bodies of state governance and local self-government. The formation of those bodies, a clear-cut division of their powers, functions and responsibilities provide a foundation for building a developing and prosperous country.

### 1.5.1 The RA State Governance System (SGS)

The system of state power is an integral part of the legislative sphere, state governance bodies and public service through which principal state functions are carried out and the problems facing the country are solved. The state governance system (SGS) includes executive bodies; executive powers are exercised by the RA government, comprising the Prime Minister and Ministers<sup>4</sup>. The RA President is the guarantor of the Republic's independence, territorial integrity and security<sup>5</sup>.

The state governance aims at increasing the economic might of the country, strengthening independent statehood, augmenting the living standards of the population and safeguarding the sustainable development of social relations. It should be seen as a system comprising the state governance bodies, their functions, application methods and means and interconnections between the subjects and objects of governance. It is also a process,

since it is but a continuous implementation of powers, which brings about change in social existence, phenomena and events.

The existing SGS in Armenia is in more ways than one out of line with present day requirements and urgently needs to be reformed. State governance inefficiencies result from the well-known "diseases" of weak powers. These are, in particular, a lack of official strategy where implementation is concerned, but also a lack of mechanisms for securing general access to information and its exchange between the branches of power. Furthermore, duplication of functions and obscurity of instructions at various levels of power, the lack of clear cut goals and priorities, and no sense of purposefulness significantly reduce state governance effectiveness (Tables 1.1; 1.2; 1.3).

Very often the general public has no understanding as to the purpose and necessity of decisions made at various levels of state governance. This is the result of a lack of transparency in the authorities' activities and due to their failure to inform the public in advance of the actions they intend to take.

At present a strategy for the formation of an efficient SGS is virtually non-existent. Such a strategy should provide a foundation for **structural** and **functional** reforms and for the improvement of public service.

<sup>4</sup> Constitution of the Republic of Armenia, Article 85

Structural reforms within the SGS should aim at:

- ✎ establishing a new, simple and conceptually unified SGS;
- ✎ uniformly setting the inner structures of the governance bodies;
- ✎ securing transparency and mutual accountability of any functions of the governance bodies;
- ✎ a clear-cut division of the scope of goals, problems and functions.

The following principles should serve as a basis for an efficient SGS:

- ✎ supremacy of individual's rights and freedoms;
- ✎ democracy, viz. securing the direct involvement of the general public in the formation and functioning of state bodies;
- ✎ a clear division of tasks and functions of power;
- ✎ rule of law, i.e. strict compliance of the State machinery with existing rules and regulations;
- ✎ transparency of operations;
- ✎ professionalism of public servants;
- ✎ a combination of elective and appointed positions and optimal correlation between centralized and decentralized levels;
- ✎ a simple hierarchical structure for the State governance bodies.

Rather than directing the activities of the state governance system (SGS) towards the solution of crucial strategic problems, so far only tactical actions taken have been, including the reduction of budgetary resources and partial changes in the management structures. As a result, the quality of public service has suffered.

Without financial assistance, it became impossible to realize the large scope of the state functions inherited from the Soviet system. In the meantime, today's SGS could be characterized as a hybrid of old and new systems. Within the structures of the SGS one still finds functions that have been held over from the past. These are sustained by tradition but are no longer operational.

State governance bodies and their staff are unjustifiably redundant, in terms of their number. This can be accounted for by an inadequate division of tasks, functions and powers, the unfounded nature of their inner structures, and the public service system's inefficiency. Probably the most important factor is the lack of a unified conceptual framework for the formation and structural composition of the SGS. According to two consecutive surveys conducted<sup>6</sup> in 1996 and 2000 on the causes that bring forth the inefficiency of state governance, "staff vulnerability," and "imperfect legislation and regulations" are still seen as major problems. Together with that

"erroneous selection of top management" and "flawed organization of the governance bodies" have acquired special urgency (Table 1.1).

Currently SGS in Armenia includes, alongside the 18 ministries, over 30 various agencies and departments that are affiliated with the government and subordinated to the ministries as well as bodies stipulated by law. Territorial administration is exercised in 11 marzes, including the capital, Yerevan, which also has marz status.

Prior to the formation of the current structure, a large number of changes were made. From 1995-2000 over 20 structural changes (reorganization, merger, dissolution) in the composition and structure of the government took place, affecting over 15 ministries (Table 1.2). Meanwhile numerous internal structural changes occurred within the then existing ministries.

In order to identify efficient and realistic levels of decentralization of powers of the executive bodies, to formulate adequate policies and to establish efficient mechanisms for the fulfillment of those functions, an in-depth analysis was needed of the division of functions for each sector and for all levels of governance. Such analyses were made<sup>7</sup>. The functions performed by the SGS were broken down, in organizational terms, into 5 groups. Studies show that among the functions performed by separate ministries more than 20% of overall functions make up *service provision* and *inspection*, which in conformity with the conceptual approach to SGS reforms, should be carried out by agencies and departments (Table 1.3).

In their efforts to rectify the situation, the RA authorities focus their attention on raising the *efficiency* of the state apparatus and the *quality* of services provided to the people. In 1998 a Public Sector Reform Commission the Government of Armenia was set up and has been working successfully ever since. It has elaborated *The conceptual framework of structural reforms of the RA State governance system*. According to the design of this conceptual framework large-scale activities in the RA Ministries and in other agencies of State governance are underway for the implementation of structural and functional reforms.

A central role was given to the adoption and enforcement of a law on civil service in Armenia. A working group on civil service reforms, formed by the Prime Minister and answering to the Public Sector Reform Commission Reforms, elaborated and submitted for discussion within the Cabinet of Ministers a draft law. The National Assembly adopted the first reading, which was submitted at the initiative of the Government.

The draft Law *On civil service* represents an attempt at regulating the creation of a legal basis for the civil service system. Necessary provisions for the bylaws

**Causes that bring forth inefficiency of state governance according to the survey results**  
(the respondents were allowed to mark several causes) (the number and the percentage out of total respondents)

TABLE

1.1

Year 1996	Respondents, total of 1,200 individuals, including		Year 2000	Respondents, total of 1,200 individuals, including	
	Senior officials (600 individuals/)	Junior staff in State governance and LGUs (600 individuals/)		Senior officials (600 individuals/)	Junior staff in State governance and LGUs (600 individuals/)
Causes			Causes		
the result of war	550 (92 %)	500 (83 %)	the result of war	400 (67 %) ↓ by 25 %	250 (42 %) ↓ by 41 - %
new Statehood	535 (89 %)	500 (83 %)	new Statehood	450 (75 %) ↓ by 14 %	300 (50 %) ↓ by 33 %
imperfections of the legislative & regulations field	500 (83 %)	400 (67 %)	imperfections of the legislative & regulations field	460 (75 %) ↓ by 8 %	340 (57 %) ↓ by 10 %
external pressures	400 (67 %)	300 (50 %)	external pressures	270 (45 %) ↓ by 22 %	300 (50 %) ↔
incorrect selection of senior officials	300 (50 %)	570 (95 %)	incorrect selection of senior officials	470 (78 %) ↑ by 28 %	500 (83 %) ↓ by 12 %
staff vulnerability in the system	400 (67 %)	540 (90 %)	staff vulnerability in the system	450 (75 %) ↑ by 8 %	500 (83 %) ↓ by 7 %
incorrect formation of governance structures	380 (63 %)	200 (33 %)	incorrect formation of governance structures	460 (75 %) ↑ by 12 %	350 (58 %) ↑ by 25 %
low salaries	540 (90 %)	560 (97 %)	low salaries	470 (78 %) ↓ by 12 %	500 (83 %) ↓ by 14 %
vague formulation of issues	450 (75 %)	300 (50 %)	vague formulation of issues	510 (85 %) ↑ by 10 %	420 (70 %) ↑ by 20 %
unequal distribution of powers and functions within the entity	450 (75 %)	400 (67 %)	unequal distribution of powers and functions within the entity	480 (80 %) ↑ by 5 %	500 (83 %) ↑ by 16 %
duplication of functions in various entities	400 (67 %)	380 (63 %)	duplication of functions in various entities	480 (80 %) ↑ by 27 %	450 (83 %) ↑ by 20 %

↑, ↓ - increase or decrease (in percentage) as compared to the results of the previous survey  
↔ - no change as compared to the results of the previous survey



**The RA government structure and its modifications in 1995-2000**

**TABLE  
1.2**

	25.07 1995	20.10 1995	08.11 1996	10.06 1997	20.04 1998	17.11 1998	15.06 1999	13.11 1999	28.02 2000	20.05 2000
RA Ministry of Environmental Protection & Lithosphere	+	+	-	-	-	-	-	-	-	-
RA Ministry of Environmental Protection	-	-	+	+	+	+	+	-	-	+
RA Ministry of Agriculture & Management of Nature	-	-	-	-	-	-	-	+	+	-
RA Ministry of Agriculture	-	-	+	+	+	+	+	-	-	+
RA Ministry of Agriculture & Food-staff	+	+	-	-	-	-	-	-	-	-
RA Ministry of Health Care	+	+	+	+	+	+	+	+	-	+
RA Ministry of Health Care & Social Security	-	-	-	-	-	-	-	-	+	-
RA Ministry of Social Security	-	-	+	+	+	+	+	+	-	+
RA Ministry of Social Security, Employment, Population Migration & Refugees Issues	+	+	-	-	-	-	-	-	-	-
RA Ministry of Education & Science	+	+	+	+	+	+	+	+	+	+
RA Ministry of Culture, Youth Issues & Sports	+	+	+	+	+	+	+	+	+	+
RA Ministry for State Property Management	-	-	-	-	-	-	-	+	+	+
RA Ministry for Privatization	-	-	-	+	+	+	+	-	-	-
RA Ministry for Privatization & Foreign Investments	-	-	+	-	-	-	-	-	-	-
RA Ministry of Statistics, State Register & Analyses	-	-	-	-	+	+	+	+	-	-
RA Department of Statistics, State Register & Analyses	+	+	+	+	-	-	-	-	-	-
RA Ministry of Territorial Administration & Urban Development Coordination	-	-	-	-	-	-	-	+	+	+
RA Ministry of Urban Development	+	+	+	+	+	+	+	-	-	-
RA Department for Emergencies	+	+	+	+	-	-	-	-	-	-
RA Ministry of Information	+	+	-	-	-	-	-	-	-	-

At present the RA Ministry of Urban Development and the National Statistical Service of the RA function as separate entities.



### The breakdown of functions (by category) in the total amount of functions performed by Ministries

(The presented indicators reflect the situation prior to the new structure of the Government as outlined by the RA President in February 2006; possible deviation does not exceed 15%).

TABLE

1.3

Ministry	Total amount of functions	of which				
		1	2	3	4	5
1. Ministry of Social Security	26	A - 13 (50%)	D - 7 (27%)	E - 3 (11,5%)	G - 2 (7,5%)	B - 1 (4%)
2. Ministry of State Revenues	51	A - 22 (43%)	D - 9 (17%)	B - 7 (14%) G - 7 (14%)	-	E - 6 (12%)
3. Ministry of Culture, Youth Issues & Sports	36	A - 20 (55,5%)	D - 5 (14%) E - 5 (14%)	G - 4 (11%)	B - 2 (5,5%)	-
4. Ministry of Health Care	41	D - 18 (45%)	G - 10 (24%) A - 10 (24%)	E - 2 (5%)	B - 1 (2%)	-
5. Ministry of Transportation	18	A - 5 (28%) D - 5 (28%) E - 5 (28%)	B - 2 (11%)	G - 1 (5%)	-	-
6. Ministry of Industry & Trade	46	A - 24 (53%)	G - 7 (16%) D - 7 (13%)	E - 6 (13%)	B - 1 (2%)	-
7. Ministry of Statistics, State Register & Analyses	31	E - 12 (39%)	A - 11 (35%) D - 10 (18%)	B - 3 (10%) D - 3 (10%)	G - 2 (6%)	-
8. Ministry of Environmental Protection	57	A - 17 (30%) B - 12 (30%)	G - 11 (19%) B - 1 (2%) G - 4 (10%)	G - 12 (21%) D - 9 (23%)	B - 7 (12%) E - 4 (10%) G - 4 (10%) B - 2 (3%)	E - 5 (9%)
9. Ministry for Privatization	40	G - 20 (30%) D - 20 (30%)	A - 25 (24%) G - 1 (4%)	E - 8 (1)	-	-
10. Ministry of Education & Science	66	D - 20 (30%)	G - 1 (4%)	-	-	-
11. Ministry of Agriculture	57	A - 23 (40%)	B - 12 (21%) G - 7 (16%)	-	E - 9 (16%)	G - 3 (5%)
12. Ministry of Justice	58	A - 18 (31%)	D - 14 (24%)	-	B - 9 (16%)	E - 6 (10%)
13. Ministry of Economy	60	A - 52 (87%)	D - 7 (11%)	-	-	-
14. Ministry of Urban Development	40	A - 19 (47,5%)	D - 12 (30%)	-	E - 3 (7,5%)	B - 2 (5%)
15. Ministry of Finance	109	D - 36 (36%)	D - 28 (28%)	-	B - 14 (12%)	E - 6 (4%)
16. Ministry of Energy	25	A - 10 (40%)	D - 7 (28%) E - 7 (28%)	-	-	-
17. Ministry of Postal Service & Telecommunications	42	A - 14 (33%)	D - 13 (30%)	-	E - 5 (13%)	B - 3 (8%)

The generalized picture of the share of each function in the total amount of functions performed by Ministries is as follows: "Functions of formulating policies and strategies: A - 310 (39%); "Functions of coordination and monitoring of performance: D - 188 (29%); "Regulatory and procedural functions: C - 123 (15%); "Subsidiary functions: E - 92 (11%); "Service provision functions: B - 79 (10%)".

were included, based on the principles of civil service career stability, equality before the law, political tolerance, professionalism, legal and social security and

other important principles, as well as existing international practices in the field of civil service (Box 1.7).

## The main principles of the draft law on civil service

1.  
BOX

As an essential part of State Governance Reforms, special importance is attached to the regulation of civil service relations and implementation issues, especially to the formation and development of the civil service system. The Armenian Government intends to implement an efficient and balanced personnel policy, to staff the state administration with well-qualified, competent individuals with high moral values who are not dependent on changes in the ratio of political forces. Civil servants (CS) will be provided with state guarantees for legal and social security.

The Law will stipulate that:

- ✍ all positions in civil service can be filled only with individuals who are recognized as winners in open and transparent competition;
- ✍ the competition will be conducted through tests and interviews by a steering commission formed for this purpose;
- ✍ specific job descriptions, which are considered a new practice in the legal environment of Armenia, will define the clear scope of major requirements and competences of the CS, as well as applicability area of the Law, classification of positions, ranking of CS, appointment to positions, evaluation and training, waiting lists, the legal status of CS, their appraisal and application of disciplinary penalties, dismissal, as well as management and organization of the civil service and assumption of civil service positions.

The draft regulates in detail the regular checks of correspondence of CSs to the requirement of the position, defining evaluation, testing and training systems. The rights of CS, their responsibilities, the limitations applicable for them, the scope of obligations, as well as specific provisions that refer to the mechanisms for appraisal/promotion, disciplinary penalties and dismissal from the position are also envisaged. The law will establish the bodies for management and organization of civil service - promoting uniform civil service state policy, an independent body established by law - civil service council and chiefs of staff from relevant institutions.

Of course, the above said does not necessarily mean that after the adoption of the law the personnel policy issues will be solved immediately. For the efficient implementation of the latter new relevant procedures should be created, numerous bylaws for the enforcement of the Law should be elaborated. The latter, as well ensuring smooth transformation of the existing system to a new civil service system, which will be regulated by the transitional provisions of the above mentioned law are underway. Elaboration of draft laws on different variations of civil service - diplomatic, tax and customs services - is currently in progress.

At the same time, it should be noted that the regulations of the civil service relations would not serve the purpose if all directions of state administration reforms are not coherent and interconnected.

**Arevik Petrosian,**

*Deputy Minister of Justice,  
head of the working group of the  
Civil Service at the Public Sector Reform Commission*

**Aharon Mkrtchian,**

*consultant of the working group of the Civil Service,  
Public Sector Reform Commission*

The draft law on civil service also envisages the development of the rules of ethics for a civil servant. In this case the initiative came from an NGO, the Union of

Armenian State Servants, which prepared a Code of Ethics for civil servants as a basis for further elaboration.

1.8  
BOX

## Code of Ethics for Civil Service

An attempt to work out the rules of ethics for civil servants (CS) was made by the Union of Armenian State Servants (NGO). The research-survey conducted in five governors' offices was aimed at revealing the CS sentiments on the expedience and importance of introducing CS rule of ethics (six sections on the whole). Out of the 189 surveyed, 72% are males of working age (25-55 years old), which is highly typical of our governance system. The majority (72%) are convinced that the introduction of the rules of ethics will significantly contribute to regulating the CS activities.

1. The majority of the surveyed agrees that the civil service is a professional activity, requiring that the CSs be guided by state interests, and adhere to decision making and implementation mechanisms (1.1. provision of rules). CSs do not support the idea of politicizing their work and unilaterally reject the possibility of non-professional activity.

2. Out of the surveyed, 60% accept in principle that civil service is a voluntary limitation of their freedoms rather than a system of privileges, however they (70%) would not like to have limitations reinforced by law. The surveyed negatively responded to a provision 1.5 of the rules, whereby outside of service, CS should refrain from business contacts with persons who have problems with the authorities. This provision needs reconsideration since the draft law, too, stipulates CS freedoms outside of work and professional activity.

3. The surveyed fully support the realization of the principles of loyalty towards political authorities, political discretion, adherence to requirements of the legislature, honesty (Sections 2&3).

4. Due to the fact that today the performance of duties, especially service provision, does not take place without "personal promises", Section 4 on agreeing and disagreeing to the unacceptability of "personal promises" elicited sharply deviating responses.

5. The requirements on the capability to perform professional work, team building and teamwork are acceptable on the whole (Section 5 & 6). The issue of a further political career after civil service is another concern. About half of the surveyed do not agree with that provision, since positions in the government apparatus for many have been seen traditionally as another step in the career ladder.

**Armen Khudaverdian,**

*Secretary of the Government of Armenia  
Public Sector Reform Commission*

The principal outcomes anticipated from the efficient implementation of the structural reforms of the SGS include *determining* the optimal number and structure of the State governance bodies, *devolution* of certain specific powers from the central governance bodies to lower-level executive bodies, *reducing* State interference in the economic activities of individual and corporate entrepreneurs, *building* the public's confidence in the Government, *reducing the size* of the shadow economy, *establishing* a stable system of governance, *raising* personal responsibility of each state servant, *introducing* self-governing systems regulated by the State.

### 1.5.2 Local self-government

Local self-government is the foundation of a democratic

state. As the authorities closest to the people, local self-government ensures civil society building, decentralization of power, economic development and solution of problems related to utilities and service provision to people.

As in other post-communist countries, in the Republic of Armenia, too, a local government system emerged after independence. Its entrenchment was ensured *politically* - by the Constitution (1995) and the law *On local self-government* (1996), *practically* - as a result of elections of local government units (LGU) held in 1996 and 1999, *economically* - by the property transferred to LGUs and by having their own budgets, *organizationally* - by the formation of LGUs endowed with appropriate powers and *legislatively* - by laws and regulations that regulate legal relations of self-government (Box 1.9).

## Legislation related to local self-government

1.  
Box

The RA Constitution and the Law *On local self-government* are the bases of the system's formation, realization and development.

The law *On local duties and fees* enables the communities to collect additional financial revenues for the functions performed and services provided. Communities have the discretionary power to set the rates.

Pursuant to the law on financial leveling, a fund has been established under the umbrella of the State budget. According to the principle of financial leveling, money from that fund is divided, through the procedure established by law, among the communities thus assisting the financially weak communities and spurring their development.

The law on the budgetary system regulates the interrelations between the State and local budgets, budgeting processes and the State budget obligations to communities.

The laws on urban development, property tax, land tax, public transportation, etc. outline the communities' rights in the urban development and public transportation sectors and the possibilities for solving community problems locally and secures the allocations of taxes to community budgets. The Law on administrative territorial division has great significance for the consolidation and development of the system of local self-government. The Electoral Code has established procedures for the election of local government units.

**Mkrtich Gimishyan**

The Constitution adopted in 1995 has served as a basis for the introduction of the system of local self-government anchored in the experience of western civilization. The Constitution laid down the provisions crucially important for the formation of the local self-government system by stating that people exercise their power through the State bodies and LGUs. Those entities were clearly separated from one another and their equal legal status was emphasized and subordination of one entity to the other was ruled out, reinforcing:

- ✦ the formation of LGUs (local councils and community heads) by the people by secret ballot in direct elections secures the independence of the community authorities. It also guarantees the right to act on their own and to bear responsibility for their actions as well as to carry out their own personnel policies and to have the discretionary power to manage community property,

- ✦ the establishment of community powers only by law thus ruling out the subordination of the local self-government system to the state governance bodies and to the decisions made by those bodies unless other provisions have been made by law.

The lack of guarantees for community consolidation and operation should be regarded as Constitutional shortcomings where the local self-government system is concerned. (The powers and the financial means necessary for their implementation have not been outlined). The Constitutional provision that allows the Government, following the regional governor's (marzpet) petition, to pass a no-confidence vote on a community head also poses an obstacle to the consolidation of the system. Furthermore, there are constitutional provisions which are not only non-operative, but are also in conflict with currently effective laws. Moreover, some laws, that directly contradict them, had been adopted and put into effect (Box 1.10).

## Shortcomings of the RA local self-government system

1.  
BOX

Various shortcomings surfaced in the local self-government system. The following are noteworthy:

- a) numerous provisions in the Law on local self-government proclaim one or another right but the lack of mechanisms for exercising those rights deprives communities of the opportunity to enjoy them. Besides, certain provisions of the Law are non-operative basically as a result of the failure of the State governance system to discharge their duties in compliance with the legally stipulated procedure,
- b) the communities' mandatory powers and financial resources necessary for their implementation and earmarked to the local budgets do not correspond to one another,
- c) funding for powers delegated to the communities by the State so far has not been provided since the establishment of the communities, as a result of which those functions are either not performed at all or are performed only partially, with the communities' own resources,
- d) the Law does not take into consideration the specific features and the capacities of large and small communities, as a result of which numerous functions assigned to them can not be fulfilled by small communities,
- e) the relations between the State and local authorities must be clarified; also, the implementation mechanisms for State controls have not been ascertain.

**Mkrtich Gimishyan**

The Law *On state procurement*, too, is in conflict with the Constitution. The Law violates the constitutional right of the communities to manage their property by themselves. The communities' right to manage their property and financial resources as they see fit is also frequently violated by the State governance and treasury entities.

### Administrative-territorial system.

#### Territorial foundations of local self-government

The Law *On the administrative-territorial division of the Republic of Armenia* (1995), too, has been of crucial importance for the formation of Armenia's local self-government system. The entire territory of the Republic was divided into 10 *marzes* (regions), plus the city of Yerevan (that was granted the status of a *marz*) wherein the state territorial governance is carried out through the decrees of the RA President. Local self-government is exercised in 930 communities (47 urban, 871 rural and 12 districts in Yerevan) as established by the Law *On administrative-territorial division*.

The basic principle underlying the theoretical framework for the system of administrative-territorial division was the following: to grant the right of self-government to each locality taking into consideration the **number of residents** in the communities, **economic, geographical, historical** and other factors.

Since the populated areas in the Republic of Armenia are heterogeneous in terms of the above-mentioned factors, the communities formed as a result of the administrative-territorial division differ significantly from one another by a number of factors:

altitude and geographical location - 21% of all communities are mountainous, i.e. located at the altitude of 1,700-2,000 meters above sea level, whereas 15.4% are high mountainous, at the altitude of 2,000 or more meters above sea level; 18.7% of the communities are located in borderline areas;

number of residents - an average community in the RA has 4,048 residents<sup>8</sup> (without Yerevan the number becomes 2,777); the smallest comprise up to 100 residents and up to 200 (36 and 60 communities respectively), while the largest have up to 3,000 and more than 3,001 residents (318 and 96 respectively)<sup>9</sup>.

Recognition of the above-mentioned differences and specifics has particular meaning for the formulation of differentiated State policies towards communities. In particular, certain privileges, exemptions and allowances have been mandated for the communities located in borderline areas. The year of 2002 has been declared by the UN as the Year of Mountains, which could be a good opportunity to highlight the concerns of communities located in mountainous areas.

One factor that bears consideration and attention is the capability of a community to exercise the rights and responsibilities when local self-government is given to a locality. Without such a capacity the right to self-governance degenerates into a mere formality.

It is obvious that reforms should be carried out in the administrative-territorial system with the specific features of Armenia taken into consideration. Small communities face serious problems in exercising long-term powers of self-government, hence the number of communities should be optimized through the consolidation of those communities into which localities have merged. That would enable the communities to avoid dissipation of financial resources, to use the consolidated resources for the solution of the communities' major socio-economic problems and to raise the efficiency of resource use.

### The current situation in the local government system, communities' budgets and community property

The efficiency of the LGUs operation is to a large extent predicated on the degree of the communities' finances (Table 1.4). For the year 2000, Armenia's planned budget for the communities was 20 billion AMD (8.1% of the country's entire budget), whereas actual funds amounted to 13.9 billion AMD (6.8% of the overall budget) due to reduced taxation collection and subsidies. This percentage has not so far displayed a tendency to go up. It is worth mentioning, by comparison, that in the European countries this indicator exceeds 30%. The average amount of budget allocations to a community amounted to 21,6 million AMD for 2000 (14 million AMD without Yerevan district communities) and purely rural communities received 7,8 million AMD. The budgets of communities with 500 residents as a rule do not exceed five million AMD<sup>10</sup>.

TABLE 1.4 Budget levels of the RA LGUs<sup>11</sup>

N	Indicators	1999		2000	
		planned	actual	planned	actual
1	Share of LGUs revenues in the revenues of the overall budget (%)	8.5	5.2	8.1	6.8
2	Share of the communities' own revenues in the communities' budget revenues (%)	77.5	81.3	57.3	62.5
3	Implementation of the revenues plan of the communities' budgets	-	58.6	-	68.9

<sup>8</sup> The calculations are made based on the official population figures for the mentioned period - 3,798,200.

<sup>9</sup> Principles of Local Self-Governance. Textbook, Yerevan "Public Service" 2000, p. 43-44. Materials of the Governmental model of territorial administration.



Such a low level of funding is the main reason for the inadequate performance of the LGUs mandatory and delegated powers. According to the study results, on the average LGUs exercise not more than 30% of their powers<sup>12</sup>. The European Charter of Local Self-Government (Article 9, par. 2), however, stipulates that "Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitutions and the law"<sup>13</sup>.

At this point two possible options for a solution to the problem can be envisioned. The first would be to reduce the powers reserved for LGUs and to bring them in line with the current level of financial allocations. The second option would be to look for additional financial resources and to raise them to the level required for the current powers. The second option is, of course, a difficult task; however, in our estimation, it has no viable alternative.

It follows from Table 1.4 that about two-thirds of the community budget is obtained from revenues that are generated from taxes, duties and non-tax fees. Communities must first of all increase their own revenues in order to ensure autonomy and economic independence. That could be achieved through allocating a percentage of other State taxes to the community budget. We would like to stress that such arrangements exist in other countries. For example, in Europe and in the Russian Federation certain portions of profit tax, value-added tax and excise tax are earmarked for local budgets<sup>14</sup>. Secondly, the share of local duties and fees could be increased. In many European countries this share exceeds 25%<sup>15</sup>. Another important means to secure the LGU's financial stability is allocation of state transfers. In

1999 the communities received 48.7% of the transfers envisioned by law, in 2000 a certain increase was registered, up to 64.9%.

To expedite the collection of community budget tax revenues it is advisable, on the one hand, to strengthen the tax administration. On the other hand, it would be wise to decentralize tax collection functions, vesting LGUs with the powers of collecting community budget revenues.

One of the most important preconditions for the formation of the local self-government system is laying the necessary economic foundation. A community's property is just such a foundation for the local self-government in Armenia.

Currently the formation of community property is an unfolding process. The experience of the past four years has shown that the policies of denationalizing State property are justified. Yet, there still is a discrepancy between the scope of a community's powers (both mandatory ones and those delegated by the state) and the property allocated to the community to exercise them. Therefore it is necessary to expand the scope of the community's ownership and to take the decentralization processes further.

To help put into motion LGU's authorities, the socioeconomic development of communities should be planned through the elaboration and implementation of targeted programs for separate branches and spheres as well as emergency situations (Box 1.11). A number of urgent issues related to the methodical and practical nature of the communities' ongoing and long term comprehensive development should be settled to enhance the efficiency of the process.

## The community development programs

Community development also requires incentives for community initiatives and for building the confidence they need to overcome difficulties by themselves. The LGUs efficiency dramatically increases when a community makes decisions as to what problems should be assigned priority and as to the ways of solving them as well as when to become involved in the implementation. Non-governmental organizations (NGOs) are worth mentioning here, especially Shen, which, since its establishment in 1988 has implemented programs in many communities.

In 1999, for example, with Shen's support a solar-powered drying-room was constructed in Ayrum, a community in the Lori region, for local processing of the abundant fruit and vegetable yields. The first year's profit enabled the community to bring a drinking water supply pipeline to the center of the village. Profit yielded the following year was used for irrigation purposes. The entire community of Ayrum, composed exclusively of refugees, acquired RA citizenship and elected as their new village leader a man who had played a crucial role in revitalizing the community.

Another village inhabited by refugees, viz. Dprevank in Aragatsotn region, also elected a new village leader when a number of successive projects were brought to successful completion. In a community without drinking water supply, Shen constructed a water reservoir that regulates a daily supply of water and two drying-rooms that use solar energy. On the community's initiative, a first aid post was established.

Ten solar-powered drying-rooms were constructed and a series of training sessions were conducted in Lusakn village in Aragatsotn region. The drying-room project was followed by the planting of a 40-hectare apricot orchard, which created jobs not only for the Lusakn residents but also for people from nearby villages. The community undertook the construction of a 1,400-meter asphalt-paved road that connects the village to the highway. Recently the community applied to the Social Investment Fund with the request for installation of a drinking water supply pipeline, promising that the necessary investment on their part will be made.

<sup>12</sup> Foundations of local self-government. Instruction Manual. Yerevan, Public Official, 2000, p. 227.

<sup>13</sup> The European Charter of Local Self-Government. Strasbourg, October 15, 1985.

Since June 2001 the Shen has been implementing, with World Bank funding, a project designed to support communities in the villages of Tatev and Gosh in drawing up development projects. Once the project is complete, the two villages will have laid the foundations upon which initiative groups can act. They will be given opportunities to decide what problems of highest priority exist in the community and then they will design project proposals to address those problems.

**Bagrat Sahakyan**

### The system's development strategy: directions for improving the community governance system

The changes currently under consideration to the Armenian Constitution should provide guarantees (such as the adequacy of financial resources for the community powers) for the formation and development of local governance systems. The Constitution should divest the Government of the right to declare non-confidence in communities and should stipulate that relations between the two may be regulated only through litigation. It is necessary that the Constitution entitle communities to set up, in conformity with the legally established procedure, inter-community unions for joint fulfillment of certain functions of local self-government.

In order to ensure further development of the local self-government system it is necessary to amend and develop legislation in order to bring it in line with the requirements of the European Social Charter, and to improve legislative discipline by providing the communities with mechanisms for protecting their rights through the courts. The powers of the community council as well as the opportunity for the council to exercise control over the community head should be expanded. These changes could be ensured by adopting the new RA Law *On local self-government* that is currently being drafted. Improving the local self-government system is, to a considerable extent, predicated on the efficiency of governance procedures and on a rational organizational structure of community governance. This structure requires some improvements, or, to be more precise:

- ✦ expanding the functions of local self-government and changing the nature of those functions,
- ✦ taking into consideration the inevitable emergence of a new balance between centralization and decentralization of powers and of the greater role LGUs should play in that balance,
- ✦ reducing the number of governance levels in the structure of local self-government and ensuring compliance with the norms of manageability,
- ✦ taking into consideration the specific features of urban, district and rural communities.

Adequate staffing plays a leading role at present in the formation of local self-government systems. The annual needs for staff renewal and continuous training (about

one-third of all employed, i.e. 2000 individuals) exceed by far the possibilities of the existing training centers, and so the need arises to broaden the network of training centers; to design and introduce unified standards and syllabi for training; and to solve the problems related to covering the staff training costs (the proper solution would be to fund training from the community budget).

It is also important to have local self-government backed by solid research. The system of local self-government can operate adequately only when there is an appropriate information base. Therefore it is necessary to establish a new information system which will be trustworthy, holistic, comprehensive, modern and on par with international standards.

According to the Law *on local self-government* currently under draft, the community shall be recognized as a legal entity, a subject of land ownership and the community budgets shall be allocated certain shares from taxes on economic activities. Pursuant to the draft Law, the right to issue building permits and to allocate land shall be reserved for the community. Therefore, becoming an interested party, the communities will promote, actively and without red tape, the development of small and medium-size businesses.

Thus, having overcome the vicissitudes of the system's formation and on the basis of accumulated experience, local self-government has moved to a stage of further development.

Ensuring the expeditious improvement of the system will require:

- ✦ improvements in administrative-territorial divisions and a reduction in the number of communities, leading to optimal, further advancement towards decentralization and expansion of community powers,
- ✦ improved financial allocations to communities and budgets that are within the scope of the communities' mandatory and delegated powers,
- ✦ improved community governance,
- ✦ improved legislation related to local self-government, the adoption and implementation of new laws.

The system's future is to a large extent predicated on the political will of the authorities and on the efficiency, timeframe and depth with which the above-mentioned problems are addressed.





Progress and  
Obstacles of  

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Economic Reforms

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- 2.1 Main macroeconomic indicators of the Armenian economy

The essence of economic reforms implemented in Armenia during the last ten years was the formation of relations, institutions and management systems intrinsic to a market economy designed to achieve the following objectives:

- ⚡ price and foreign trade liberalism, acquisition of monetary policy tools and mechanisms;
- ⚡ privatization, multiform ownership, and creation of equal conditions for competition;
- ⚡ establishment and development of financial market institutions;
- ⚡ revision of the fiscal system and its relations;
- ⚡ restructuring of the state administration system and application of new management methods and forms, regulation of natural and technological monopolies;
- ⚡ formation of social security and a system of guaranties;
- ⚡ integration with international markets.

Certain steps were taken in line with all above-mentioned initiatives

- in terms of drafting legislation and applying its implementation mechanisms. When evaluating the efficiency of these reforms, it should be mentioned that in all areas there were sufficient positive and efficient solutions. However, generally approaches to such solutions were neither holistic nor coordinated and often they were incomplete, deficient and in some cases late and of an unrelated nature. In certain cases the basis of the reforms lacked fundamental and efficient solutions from the beginning. As a result, even the most timely laws and decisions were limited in terms of their positive impact since various sectors of the economy, although pieces of the same chain, operate under different and sometimes contradictory regulations. Of course, the transition period implies and frequently demands a rapid response to emerging problems. However, afterwards it is necessary to define adequate, fundamental solutions.

# 2.1

## Macroeconomic Characteristics After Ten Years of Transition

Since gaining its independence and through 1994 economic reforms in Armenia were implemented against a background of a drastic economic decline. The causes of this decline included the disruption of the main transportation and communication routes as a result of the regional military and political conflicts, the de facto blockade of Armenia, the energy system crisis, changes imposed due to external guidance of economic policy, and a sudden break in previously established economic ties. At the same time primary steps for foreign trade for economic reforms were taken, such as price liberaliza-

tion, establishment of openness in foreign trade and economic boundaries that are objectively inherent to the shock therapy effect. All these were further complicated by a lack of experience in entering and establishing foreign markets and legally regulating product competition. The impact of this factor on the process left deep gashes in the socioeconomic situation of the country and affected the future trends for economic reforms. Beginning with 1994, possibilities arose for stopping the country's economic decline and for ensuring a measure of economic stability (Table 2.1).

TABLE Main Macroeconomic Indicators of the Armenian Economy<sup>1</sup>

2.1	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP Million USD		323.7	492.2	643.3	1286.5*	1597.0	1638.9	1892.3	1844.6	1915.2
GDP Growth Rate %	88.3	58.2	91.2	105.4	106.9*	105.9	103.3	107.3	103.3	106.0
GDP Per Capita in USD		87.8	131.9	172	342.2	423.2	429.8	499	485.0	503
Inflation % compared with the previous year	3 times	13.4 times	110 times	18.6 times	32.2	5.7	14.0	8.7	2.0	-0.8
AMD - USD Exchange Rate	—	—	—	286.0	405.9	412.6	490.5	504.8	524.1	539.5
Exports in Millions USD		82.9	156.2	215.5	270.9	290.3	232.5	220.5	231.7	300.5
Imports in Millions USD		205.9	254.2	393.8	673.9	855.8	892.3	902.4	881.3	884.7
FDI in USDmillion	19.6	2.4	0.8	9.2	24.4	17.6	51.9	232.4	139	120
State Budget Revenues and Transfers as % from GDP				15.8	18.1	14.9	15.8	17.7	19.1	16.7
State Budget Expenditures as % from GDP				21.8	24.1	19.3	18.4	21.5	23.2	21.6

\* The drastic difference between the absolute figures and growth rates of GDP in 1994 and 1995 is explained by the fact that the absolute figures are given in current prices and converted into foreign currency and thus bear the impact of the exchange rate too, while GDP compatible prices in national currency were used for the calculation of growth rates.

At the same time it should be noted that the level of stability attained did not become a basis for equitable and dynamic growth. This was caused by a disproportion of reforms, shortcomings and mistakes in different spheres, as well as situational, rather than comprehensive solutions. As a result, their efficiency was subject to the extent of their implementation at an administrative level and was limited objectively by time constraints.

The country's economy is characterized by explicit disproportions - particularly in regard to the maximum and minimum amounts of quarterly GDPs, which differ from each other approximately by a factor of four. This can be explained by the significant size of agriculture in the GDP structure. In the Soviet era, it constituted 12-12.5%<sup>2</sup> whereas during the transition years it amounted to 43% maximum and 22.5% minimum<sup>3</sup> (registered in 2000 as the result of a serious drought). The structure of GDP is highly differentiated by regions. Economic activity is concentrated in the capital city. Yerevan's retail trade volume exceeded the average indicator for the Republic by a factor of 2.4; in services it exceeded by a factor of 2.2<sup>4</sup>. The negative balance of foreign trade that represents one of the national economy's least desirable factors, is now diminishing due to in-country production of high quality commodities that are substituting the imports and increasing export volume.

In 1990 Armenia did not have foreign debt, whereas by the end of 2000 it had accumulated USD 862.5 million in debt<sup>5</sup>. The current servicing amount is approaching the limit of manageability risk.

Poverty is an issue of priority within the economy. The income of 55% of the population falls below the poverty line<sup>6</sup>. Under such conditions, poverty becomes a separate factor affecting economic development directly by limiting gross demand. Poverty results not only from unavailability of jobs but is also due to underdeveloped technology and low labor productivity. Given the circumstances that have led to the population's increasing polarization of incomes and expenditures, a middle class, which is necessary for the sustainability and stable development of a society, has not been created. One of the reasons for this is the extreme difficulty of attaining a decent living standard, not to mention becoming rich, by means of entrepreneurial activities, which somehow remain within the law. These circumstances provide a moral and psychological basis for making the decision to leave Armenia.

Migration has also played a role in hindering the establishment of a middle class. During the ten-year transition period, it was primarily the most active segment of the population that left the country - those who had the capacity for engaging in entrepreneurial activities and also for making certain investments. Highly qualified specialists left the country, too. For many who left the country, the primary reason was not the emerging problems but the authorities' discouraging policies that lacked well-defined economic and social targets, guidelines for the solution of definable problems as well as periodic manifestations of political instability that created a general distrust towards the future.

<sup>1</sup> Specifics and Stages of Economic Reforms in Armenia 1991-1998, Statistical Picture, Ministry of Statistics, State Register and Analysis, Yerevan 1999

<sup>2</sup> National Economy of Armenian SSR 1988, 1989, 1999, State Committee of Statistics of ASSR (The structure of GNP is given, its methodology is somewhat different from GDP)

<sup>3</sup> Socioeconomic conditions in January-December 2000, National Statistics Service of Armenia

<sup>4</sup> Social Picture and Poverty, Statistical Analytical Report, Yerevan 2001, National Statistics Service of Armenia

<sup>5</sup> Monetary Policy Program of the Central Bank of Armenia

At the same time, it should be noted, that in the first half of 2001, positive trends were registered in the economy. Namely, the realization of the income part of the budget amounted to almost 100%<sup>7</sup>, GDP growth has been 106.6% against 102.6% in the same period of the previous year. In June as compared with May 2001, the growth made up 143.3%, which cannot be ascribed

exclusively to seasonal specifics. The exports increased by 9.3%. At the same time, without considering traditional exports of precious stones, the export has increased by 30%, while the negative trade balance has decreased by 18.3%<sup>8</sup>. The further development of the above mentioned indicators in an interlinked and coherent behavior, will enable a new quality of economic growth.

## 2.2

### Privatization Process, from 1991-2001

After establishing the roots of democracy in Armenia, the Government immediately initiated a process for the privatization of agricultural lands, then state-owned (public) housing and, as a major condition for transition to a market economy, state-owned enterprises and incomplete construction sites (ICS). The privatization process of the past 10 years can be divided into three stages: initial (1991-1994), large scale (1995-1998) and decelerated (1998-2001).

The **initial stage** was implemented under the dominance of an emphatically political goal, that is, the immediate elimination of the foundations of communism. Privatization was seen as the only lifeboat for economic reforms. It was completed at an obviously accelerated pace. A vivid example of this was land privatization, which Armenia was first among the post Soviet states to accomplish in 1991. As a result, without a required comprehensive state policy for supporting the peasants and without timely elaboration of the policy components, approximately 320,000 farms and collective farms with extremely segmented land plots were created. In the meantime all agricultural means of production, including agricultural equipment, were appropriated for large farms.

Before the adoption of law on privatization and as preparation for privatization of state property, between 1991-1992 the Armenian Government sold experimentally 335

(4 % of the total) small enterprises (retail shops, public food, services) to the employees of these enterprises, collecting 173.1 million rubles (about 1.6 million USD).

A legal basis was needed for the introduction of state property privatization. In August 1992 the RA Supreme Council adopted a law *On privatization of state enterprises and incomplete construction sites*.

No serious attention was paid to such an important condition as setting the objectives. The same approach was applied in the second law *On privatization of state property* adopted in December 1997. The lack of clear-cut goals/objectives had negative impact on the normal process of privatization.

Privatization that was partially free of charge preceded the second, large scale **privatization** stage according to which 20% of a state-owned property's value was given free of charge to those employees who had been working in such enterprises for at least one year. In fact, within a couple of months (08/1994 - 04/1995) 1,010 enterprises in the Republic (53% of the total) were privatized in this manner and was considered as a serious step in preventing the looting of large enterprises at that time and establishing a large group of proprietors. Due to that action, 126 571 citizens of the Republic became shareholders - an unprecedented results compared with FSU countries, which however, did not have a major impetus on enterprises' activities.

Based on foreign experience and taking into consideration the insufficient financial resources of the population, the Armenian authorities opted for free of charge privatization. According to the law, 30% of the value of enterprises included in the privatization programs were given to RA citizens in equal portions, i.e. through privatization certificates with a nominal value of AMD 20,000. Using these certificates to ensure a wide outreach of the privatization process proved an illusion of social justice as there was no logical continuation for making investments by certificates through appropriate tools and regulations. Specifically, there were neither investment funds nor other market infrastructure. Instead, having no alternatives, the citizens converted their certificates into cash,

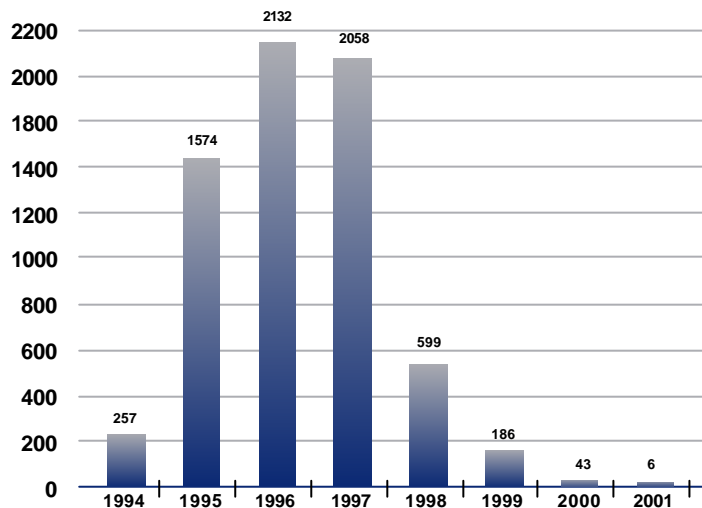
receiving more or less 30-40% of the nominal value. Thus the certificates did not achieve the main objective for which they were issued. Initially put into circulation as a means of payment to serve privatization objectives, they became instead a factor in the artificial reduction of privatization revenues.

Total revenues from privatization during the previous years add up to 130,926.4 million drams (approximately 276.3 million USD) where the payment by certificates constitutes 48.7%.

It would be interesting to view the process of state property privatization by separate groups: small enterprises, incomplete construction, state stock companies (medium and large).

FIGURE Dynamics of Privatization of Small Enterprises

2.1



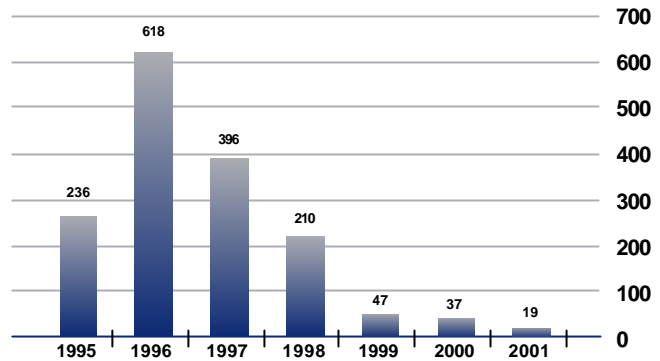
After the adoption of the privatization law, the amount collected after selling "small" enterprises was 26,893,8 million drams (approximately 59.5 million USD) where the payment by certificates constitutes 88.7%. The dynamics of sold small enterprises (including enterprises leased from larger enterprises and later bought by the tenant) during 1994-2001 is presented in Figure 2.1.

It may be accurate to posit that the privatization process of incomplete construction sites failed. Up to date, only 48 incomplete constructions were privatized, having a value of 511.4 million drams (approximately USD 1 million). This can be explained by the low interest of businesspeople in purchasing incomplete constructions, which is due to the large expenditures required for operating incomplete constructions. Furthermore, these structures are usually depleted, long in a state of misuse

and are currently useless after the suspension of their construction. Potential investors see comparatively minor utility in the resources that should be spent on completing the construction. It is clear that any significant results in rendering them useful for society in any way and even partial prevention of further destruction will depend on serious changes that should be made in the conditions and methods of privatization.

The most important sector for privatization and from the viewpoint of economic reforms is the privatization of medium and large state owned stock companies. Since 1995 1,562 enterprises have already been privatized or 63.4% of the enterprises listed for privatization (including 900 enterprises within the 2001-2003 program). The dynamics of privatization of state owned stock companies is given in Figure 2.2.

Dynamics of Privatization of Medium and Large State Owned Stock Companies FIGURE 2.2



The main reason for a drastic slowdown of the process after 1998 (see Figures 2.1 and 2.2) may be found not only in the transition to monetary privatization, as it is often mentioned, but also to a greater extent in the incorrect policy for evaluating the property that should be privatized. This very circumstance has been decisive in the third, decelerated, phase of privatization. It is essential to define the correct price of the to-be privatized property or to elaborate a substantiated and applicable method, which would reflect the condition for privatizing state property with desirable characteristics and efficiency. For

some years already the State has failed to recognize that there has been no significant progress in privatization. It appears that drastic measures should be taken to put the process on a normal track and to prevent the further destruction of the remaining state property.

The privatization of state property in the Republic is carried out in all forms specified by legislation. Yet, the most common method is the free public offer of securities, which has been used in case of 1,058 enterprises and includes all the regions of the Republic (Figure 2.3).

Privatization of Medium and Large Enterprises by Regions

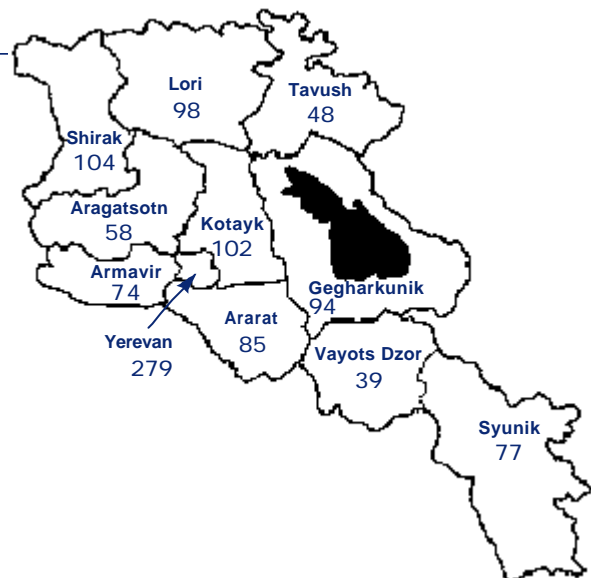


FIGURE 2.3



Given the fact that the only condition for privatization in this manner is the value of securities sold, in most cases the State does not care about the sold property afterwards. Absence of any commitments (economic or social) of the parties involved has created a situation where currently many companies have appeared in the hands of inefficient owners who bear no responsibility for them.

Through privatization of medium and large state owned stock companies, 103,521.1 million drams (approximately 215.8 million USD) were collected where purely monetary revenues constitute 61.6%.

Although the amount of revenues collected through privatization is important, it cannot be considered as criteria for measuring privatization's efficiency. The problem should be viewed from another angle - whether the enterprises are purchased by strategic, i.e. efficient managers/investors.

Another significant reason for the current slowdown of privatization is the huge debts enterprises have accumulated through no fault of their own, and which should be regulated. That is, the state as seller should approve the transaction before the initiation of the privatization process according to the law *On privatization of state property* (Article 24). This, unfortunately, is currently not the practice. During the period of preparatory activities such important issues as the financial audit of state owned stock companies and registration of the shares, at the expense of revenues collected through the privatization of enterprises are not addressed.

It could be noted that the expectations of the people regarding the privatization of state enterprises have not, to date, been met. Specifically:

- ⚡ a large group of private proprietors has not been formed,.
- ⚡ an effective market has not been established,
- ⚡ the number of operating enterprises decreased, resulting in an increase in the number of the unemployed,
- ⚡ the investments made for the privatization of enterprises are largely insufficient.

Privatization of Armenia's state property will proceed in a just and efficient manner only when the consequences of the process are taken into consideration and serious preparatory work is done in case of each to-be-privatized enterprise.

In accordance with the 2001-2003 state property privatization program, approximately 900 enterprises are to be privatized yet, hence we recommend:

- ⚡ elaboration of a comprehensive program identifying the goals of privatization process/clarification of the goals of privatization;
- ⚡ implementation of a correct policy for evaluating of the to-be privatized property;
- ⚡ prior to privatization, carrying out comprehensive preparatory activities for state owned stock companies, e.g. possible regulation of debts, conducting audits by state means (before the privatization of enterprises) and registration of securities;
- ⚡ flexible payment methods for privatization of incomplete construction sites, i.e. increasing the payment period, waiver for advance payment and definition of other privileges.

# 2.3

## The Capital Market

The economic reforms cannot be considered complete without an efficiently functioning financial sector and an established capital market. In this regard Armenia is at the initial stage of reforms. Whereas there are some savings in the country (time deposits of the population account for approximately 4% of GDP<sup>9</sup>) no mechanisms and conditions are in place for converting these savings into investments. Establishing the latter is one of the pre-conditions for marking the end of the transition period

since it will also solve diverse problems, including social issues. At present it should be stated that the capital market is in its embryonic stage and that the absence of circulation of corporate securities limits the possibilities of individuals who are ready to make small or large investments.

The absence of investment and financial tools also limits the possibilities of corporate and private business entrepreneurial risk diversification.

### Joint Stock Companies

Investment in Armenia faces a serious obstacle since the joint stock companies actually do not follow the requirements of corporate management. Even the open joint stock companies are closed in reality because of the absence of stable stock pricing. According to the 2001 program of the Securities Commission of Armenia, 84% of the existing companies in Armenia do not follow transparency principles, i.e. they are not publishing their financial records, 81% were not audited. 68% of enterprises have violated the principles of corporate management, i.e. the rights and legal interests of the shareholders were seriously violated, 52% have violated the rules of bookkeeping, 29% have not convened annual general meetings of shareholders. The majority of joint stock companies in Armenia does not use the international standards of accountability and accounting that were adopted in 1999-2000. These are conditions for transparency required first of all for foreign investors.

The total nominal value of 1,170 existing open joint stock companies in Armenia is 63.3 billion drams<sup>10</sup> or 6% of GDP. Basically they are companies that were privatized by open trade/subscription of shares (100,000 shares<sup>11</sup> out of 150,000 belong to company employees due to the fact that 20% of shares were given free of charge to the employees of state owned companies). However, the above indicators do not create a complete picture of these companies, since the controlling package of shares is mainly concentrated in the hands of a few people. Stated otherwise, these formalistic open joint stock companies are violating the rights and interests of small and medium shareholders.

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The embryonic stage of the financial market in Armenia is also conditioned by the underdevelopment or in some cases absence of necessary infrastructures, namely independent evaluators, realtors, stock exchange structures, brokerages, investment funds and companies, auditors.

The law *On regulation of the securities market* adopted in 2000 and the activities of the Securities Commission, established in accordance with that law, will become a serious impetus for establishing the capital market.

<sup>9</sup> Banking Bulletin, Central Bank of Armenia, December 2000

# 2.4

## Creation of Equal Conditions for Competition and Issues of the Public Sector Regulation

Another important factor that will contribute to the free flow of capital is the creation of an environment that ensures equal competition based on legislation as well as practical mechanisms. This first of all requires banning double standards in current legislation and imposing strict limitations on monopolization. In reality the opposite scenario holds true, and as a result, some spheres of import, export as well as some forms of trade and production are monopolized. That these trends continue and develop means that opportunities for equal competition are brutally violated, and this substantially constrains the free flow of capital. Because there was no anti-monopoly (antitrust) legislation, during the last ten years the State had to promote its situational and almost inefficient struggle against technological and organizational monopolies. The respective law was adopted in 2000 but its practical regulations have yet to be enforced.

Given the widespread use of double standards of current legislation and the legal imperfection of the judicial system dealing with the regulation of the economic sphere, bankrupt and healthy enterprises exist side by side. As a result there are cases of non-payments between businesses, accumulation of debts due to bad loans that are expanding through a multiplying effect and becoming a factor for limiting economic growth. The accounts payables of the large and medium enterprises alone in 2000 add up to the equivalent of 1 billion USD<sup>12</sup>.

As a result of double standards, those enterprises which operate within a legal framework find themselves in an obviously disadvantaged position, whereas bankrupt enterprises are at an advantage, as they quite often benefit from the protection of the State. They receive indirect, disguised subsidies, thus preserving their property rights. The cost price of production/services of these

enterprises is decreased, thereby resulting in a distorted structure of solvent demand. Consumers and producers receive incorrect pricing signals and certain areas of the economy and some enterprises drop out of this unfair field of competition.

There still exists the belief in society that even with the kind of protectionism described above, those enterprises that remained in the public sector, the former "flagships" of the economy, can be saved and revitalized. In fact, the solution to this problem lies in the regulation of state enterprise activities, their control, performance evaluation, as well as a coordinated approach to their liquidation, if they cannot be privatized or when there is no alternative. It is clear that granting them the formal status of a state joint stock company has not had any substantial impact on bringing their performance into line with market criteria.

We believe that prior to privatization, state enterprises must have adequate regulation and supervision, which will enable them to prepare for a more successful privatization and prevent wasting the limited budgetary resources spent on them.

Other future alternatives for state enterprises:

- ✂ based on state-defined strategic evaluation criteria, inclusion of an extremely limited number of enterprises in the special group of state treasury enterprises (the latter do not pay taxes and their total income goes to the state budget), with direct supervision and reallocation of their financial flows,
- ✂ introduction of trust management,
- ✂ constant monitoring of financial transactions of all other enterprises that are in the preparatory phase of privatization or that are already privatized.

# 2.5

## Monetary Policy

Of the past ten-year process of establishing statehood, the introduction of a national currency, the Dram, represents an important stage. The change in currency was, in fact, imposed at that time, since the country was not ready for it. The Central Bank was not a well established institution and there was a lack of foreign exchange reserves to ensure the stability of the national currency. Due to these conditions, as well as a result of price liberalization and hyperinflation caused by other factors, the currency rapidly lost its value. However, within less than two years, the Central Bank managed to assume the legally reserved function of the nation's treasury. It introduced specific monetary policy tools and to some extent ensured the manageability of the inflation rate and, consequently, the exchange rate of the national currency.

Starting with the end of 1995, one of the country's most important achievements has been its macroeconomic stability. It is remarkable for its low inflation rate and has been achieved through a certain coherence between monetary and fiscal policies and tough behavior. On the other hand, starting from the end of 1998 in pursuit of macroeconomic policy, characterized by the strong control of inflation, there have been marked deflationary trends. This is rather undesirable for an economy that has a significant gap in its balance of payments. The prevailing model for managing inflation by controlling the monetary base does not promote economic growth, either. During the last two years, higher inflation rates were predicted than were actually registered: 8% in 1999 and 5% in 2000<sup>13</sup>.

# 2.6

## Reforms for Development of the Financial Market

Among the reforms directed at creating a financial market and in terms of coherence and comprehensiveness, the banking system stands out. As a result of these reforms, the only relatively well established institutional participants of the financial market are the banks. As of January 1st, 2000, there were 31 banks in Armenia with 192 branches, 169 service providing/transaction offices totaling assets of 236.3 billion drams and having a total capital of 33.6 billion drams<sup>14</sup>, which constitutes 23% and 3.2% of GDP respectively. Having moved beyond its period of establishment (1995-1997), the banking system became one of the most stable pillars of the transition economy and even assumed the role of performing functions of other underdeveloped institutions of the financial market. The immaturity or inadequate development of other institutions of the financial market not only limit the development of the financial market but also slow down the development of the real sector.

The financial market's insurance system is not yet fully developed. This may play an extraordinarily important role for growth in the real sector and for the solution of social problems. Until now, legislation has not been adopted on mandatory insurance. The insurance system regulations provided by current legislation are far from internationally adopted practices and mechanisms. Capitalization and the forms of insurance companies' transactions are very limited. In cases involving high risk insurance, they act as intermediaries for foreign reinsurance companies. Life and health insurance almost do not exist. These kinds of insurance, having a well-defined role to play in building social stability, may also have a potential to contribute to the accumulation of long-term loan and investment resources within the country.

Due to the Armenian banking system reforms, in 1996-1997 long-term loans were made available for the first

time by international financial institutions. This *de facto* started the extremely important process of long-term loan making for the real sector of the economy and some enterprises with competitive and stable cash flows were created. Currently the banking system is implementing approximately 10 similar programs. Only in 2000 the volume of loans has increased by 45%, meanwhile the long-term (more than one year) loans have nearly doubled<sup>15</sup>.

The introduction of deposit insurance to the banking system represents an important new phase, thanks to which it will be possible to attract and draw the savings of the

population into the banking system. At present, there is a need to review the concept for banking system regulations and supervision, since in reality the objects of the regulations - banks - have changed. At the same time, it is necessary to take into account the consequences of and the need for reforms in other fields of the financial market and the real sector. Take the example of the banking system's two-pronged structure. Given conditions where there are already stratified and developed subjects, banks can diversify into multi-level categories, which will benefit the financial market, bank customers as well as consumers of financial market services.

## 2.7

### Taxation Policy

Legislation on taxation underwent substantial review between 1997-2000 when fundamental new laws on taxes were adopted, based predominantly on international standards. This was a genuine breakthrough, considering that taxation legislation and the previous system had been exclusively fiscal. However, some principal problems regarding enforcement still remain unsolved in taxation legislation and the administrative system. Under these circumstances the promotion of sustainable and accelerated economic growth does not translate into a taxation policy that will also solve current fiscal issues.

Taxation relations in RA are regulated by the laws on taxes, profit tax, income tax, property tax, land tax (direct taxes); value added tax, excise tax, and simplified tax as well as by the law on fixed duty (which substitutes profit and value added taxes).

The changes in taxation legislation at the end of 2000 created two major groups of taxpayers: (i) fixed and simplified taxpayers and (ii) those taxpayers who prefer paying profit tax: thus the final choice was left to the taxpayer, excluding any pressure from the State.

The above-mentioned process was directed to and resulted in a prevalence of indirect taxes. In 2000 the ratio of indirect taxes in the structure of tax revenues tripled in comparison with 1994; currently they account for 70%. This means that eventually the tax burden is transferred to end consumers, including citizens. Presently, the established prevalence of indirect taxes has no alternative in terms of reducing the shadow economy and thereby significantly decreasing the property

tax since it contributes to the capitalization of enterprises privatized by insignificant investments and promotes domestic investments.

In the course of the next several years, and taking into consideration certain proportions of the economy's development, the taxation burden of businesses should be gradually modified to put more stress on direct income taxes, while preserving the boosting impact of taxation mechanisms.

In terms of balancing the tax burden, the very small proportion of property tax (which is classified under direct taxes) in the structure of tax revenues warrants attention. The fiscal effect of this tax is minor and the economic effect is almost non-existent. And yet, this tax should have a clear stimulatory role for the economy.

Property tax should be levied progressively on personal real estate, moveable property and that of production significance. In particular it should be levied on those privatized companies that do not operate directly. The ratios of profit tax and property tax should be interconnected. This will strengthen the position of property owners who have made minor investments, but who have no willingness to operate privatized businesses. They neither want to start up operations nor sell them in the secondary market where these businesses can be purchased by efficient managers and people who are ready to make investments.

One of the most critical issues for taxation policy efficiency is the transfer of jurisdiction exclusively to the courts for imposing fines and penalties on undisciplined

taxpayers. This would comply with the current Constitution, which states that a person can be deprived of his/her property only by court decision. In terms of qualitative changes in these relations, the adoption of a law on inspections had a substantial impact - double inspections are now strictly limited and comprehensive inspection by any state entity is prohibited.

During the last ten years the system of taxation penalties very often have placed the taxpayers in difficult or unbearable positions. Frequently these situations have found resolution in a state declaration of amnesty, which has created an illusion of justice and simultaneously legitimizes application of double standards. In fact, entities that have accumulated tax arrears eventually receive indirect loans and subsidies from the state whereas the law-abiding taxpayers do not get these tax privileges. They are imposed upon to pay their taxes in advance, which is illegal. Thus they partially cover the budgetary gap that was created by the accumulated arrears of undisciplined taxpayers and actually credit the budget without receiving any interest. At the end of 1997 and during 1998 the amnesties that were declared resulted in a doubling of clearings on the reduced amount of arrears. In the meantime the amount of arrears at the end of 1998 almost doubled. As of January 1st 2001, the arrears to the state budget were 143 billion drams<sup>16</sup>, equal to the tax revenues of the budget for 2000.

The changes in taxation legislation in 2000 primarily unified the principles of profit and income (corporate) taxes. The establishment of a single scale for the profit tax has created equal conditions for the investors and stimulates

the increase of capitalization level of competitive enterprises. The elimination of a progressive taxation principle in levying income taxes will contribute to the reduction of the most widespread phenomenon in the shadow economy, i.e. understatement of wages and salaries.

In order to rationalize tax relations once and for all, it should be acknowledged that the current mandatory social insurance payments in their economic essence have no connection with social insurance. In fact, the employee or more often his/her employer, without any contractual arrangements and specific benefit, pays a social tax rather than making social insurance payments. It does not matter for the employee how much the employer pays for him/her, since this payment has no connection with the future pension. It is used, rather, for meeting the minimal social demands of the current pensioners and socially vulnerable groups of the population. It would be appropriate to replace this payment with a social tax and to pass the complete administrative responsibility to the tax collection authorities. This will increase collection levels, substantially reduce the civil service staff and at the same time payments of social taxes made by the employers will be secured. With the introduction of a social tax in the country, the social security and social insurance systems will be separated at last.

The problem of returning the accumulated overpayments for value added tax has become an obstacle for export. The solution of this problem requires that this regulation be applied only for exporters maximally simplifying the procedures for returning the overpayments.



# 2.8

## The Shadow Economy in Armenia

Currently the shadow economy<sup>17</sup> is a serious obstacle for implementing reforms and economic development in Armenia. Generally there is a common belief that the main reason for the shadow economy's existence is avoiding mandatory payments. However, sometimes people are engaged in illegal activities and therefore they do not declare their incomes to tax authorities, thus violating the law twice. The tough and inefficient taxation and customs policies, governmental regulations and restrictions, as well as corruption occupy a prominent place among the factors contributing to the creation and expansion of shadow economy.

The liberalization processes promoted in the framework of economic reforms at the beginning of the 90s in Armenia, the establishment of private property, the low level of incomes and the sharp decline in the population's living standards, the late and imposed nature of the national currency's introduction, new and unregulated taxation and customs systems, high tax and customs rates, the population's distrust of the banking system and, therefore, the prevalence of cash in payments, deficiencies in legislation and the judiciary system, incomparably mild penalties (in contrast to anticipated profits) for the activities of the shadow economy, tough and inefficient state regulations of the economy as well as the high level of corruption contributed to the expansion of the country's shadow economy. With its diverse implications, today it is present almost in all spheres of the Armenian economy, creating serious obstacles for the promotion of economic policies.

Compared with other countries, the Armenian shadow economy has a number of peculiarities, some of which bear mentioning:

- ⚡ The shadow economy is relatively non-criminal and mostly is not linked with criminal gangs; this can be explained by the high level of corruption in the country. The major representatives of the shadow economy have different "umbrellas" and protectionists in different state structures and therefore they do not have a need to maintain large criminal groupings.
- ⚡ Since shadow phenomena are wide-spread, many types of shadow activities became "normal" for the society (for example receiving unregistered high

salaries). In this sense shadow and criminal activities are separated and are perceived differently by people.

- ⚡ The shadow economy segment is quite visible. Because of the difficult social conditions within society, the state implements a mild policy vis-a-vis many types of shadow activities.

The shadow economy has an extremely negative impact on the society and economy. In this regard the following are noteworthy:

- ⚡ Shadow activities are illegal; they contribute to the creation of an environment of impunity and weaken the basis for supremacy of law.
- ⚡ The shadow economy endangers the development of production and trade, creating unequal competitive conditions for the businesses that operate legally in these areas.
- ⚡ The shadow economy makes the accuracy of official economic indicators unreliable thus decreasing the efficiency of implemented economic policies.
- ⚡ The increasing the shadow economy implies a reduction in state revenues, which creates state budget deficit problems.
- ⚡ Unfair incomes are generated in the society, which, under equal conditions would have been redistributed among the population through budgetary mechanisms.
- ⚡ Expanding the shadow economy increases the demand for labor and stimulates the flow of the most qualified specialists into the shadow segment thus decreasing the efficiency in the official segment of the economy.

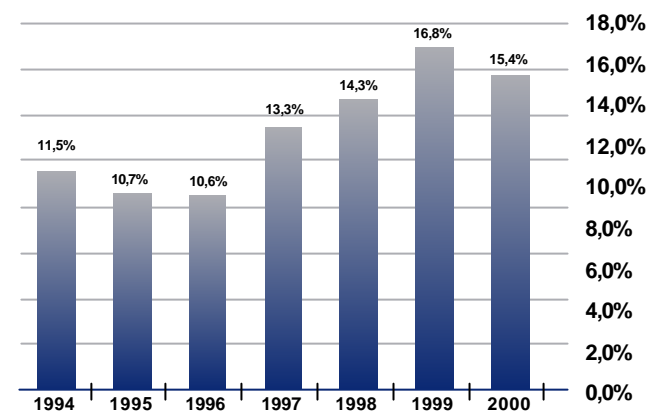
It is interesting to note that, during the last ten years, in addition to its negative impact the shadow economy has also been a positive influence. For the society of a transition period country, it has secured social stability by creating in particular an opportunity for socially vulnerable groups to earn some income. This cannot be ignored. In this regard 1990-1994 can be considered a period when the positive impact of the shadow economy prevailed. During this difficult period, economic reforms were in their initial stage, the national currency had not

been introduced yet, private enterprises were underdeveloped, there was a shortage of many products, and the state was mostly busy with external issues. The state was unable to guarantee for the population the minimal subsistence level and was "closing its eyes" to the various types of shadow activities.

In the process of economic and social reforms, from

1995-2000 the destabilizing and negative factors of the shadow economy gradually started to prevail. Under conditions of internal political tension, the expansion of a shadow economy was reflected in the relative reduction of tax revenues, which reached its lowest point in 1996. Since 1997 due to tough tax administration, the tax collection process for the state budget revenues started to improve (Figure 2.4).

Dynamics of Tax Revenues and Nominal GDP Ratio from 1994-2000



Naturally, the ratio of tax revenues and the nominal GDP is not the best indicator for assessing taxation activities. Yet, in the absence of reliable and exact statistics, it gives a general impression about successes and failures in the collection of tax revenues.

Recently a specific relationship has developed between politics and the shadow economy where the incomes generated through shadow activities are used for attaining political power. A clear example is the 1999 parliamentary elections when many of the representatives elected to the National Assembly came from the shadow economy.

If the trends of the last year continue, that is, the expansion of Armenia's shadow economy and the development of the formal sector, Armenians may find themselves in a very difficult situation in a few years. Therefore an issue of priority for the Government should be the implementation of extensive anti-shadow initiatives designed to mitigate the destructive consequences,

which the shadow economy could have otherwise wrought in the future. In the same lines, the steps recently undertaken by the Government are aimed at strengthening the fight against shadow economy, and making it more effective. Specifically, the elaboration of the strategy on combating corruption and the ongoing public sector reforms are expected to enhance efficiency, transparency and accountability. Activities also include deregulation of the entrepreneurial field and elimination of various barriers. Significant shrinking of shadow economy could be expected only if the above mentioned activities are carried out in a continuous and targeted manner. However, in the struggle against the shadow economy, it should be recognized that, given the nature of this phenomenon, its complete elimination is almost impossible. Nevertheless, the Government must strive, together with all the progressive forces of society for implementation of appropriate measures to reduce the shadow economy down to the lowest possible level.

## 2.2 BOX

### Calculation of the Shadow Economy Volume in Armenia

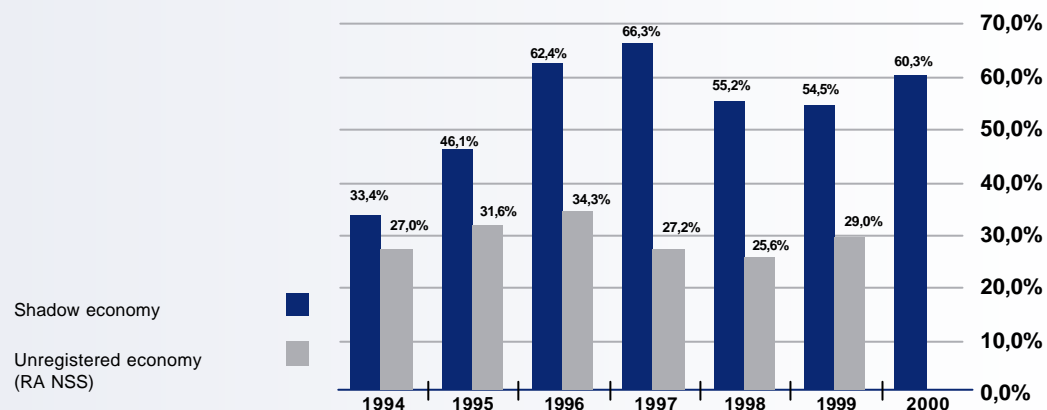
The difficulties in calculating the shadow economy can be explained by its peculiarities. Nevertheless, international experience indicates that there are various methods for measuring the latent segment of the economy although none of these methods is perfect. International experience shows that the most accurate methods for assessing shadow economy levels are so called "monetary" methods, which use different types of monetary indicators in the computation. The volume of Armenia's shadow economy<sup>18</sup> was calculated locally using a method of assessing the demand for cash money proposed by American specialist Phillip Gutman in 1977.

The RA NSS calculates the volumes of shadow economy<sup>19</sup> (used as unregistered economy) based on the data on those employed in the economy and the number of those indicated in regular statistics, indirect macroeconomic methods by using the results of sampling and special surveys and sources of all available data and information. It should be noted that the final estimates received through such a diversity of methods (in this case used by RA NSS) as compared with the estimates based on the cash money (the expert calculations) comprise a large margin of error, ascribed to the inaccuracies in the initial figures of calculations, thus explaining the incompatibility of the results and subsequently leaving space for the possibility of subjective correction or interpretation of the final result (Figure 2.5).

#### The Volume of Shadow Economy in Armenia 1994-2000 using the cash money method (expert estimate) and the RA NSS calculations<sup>20</sup> Percentage of the official nominal GDP of Respective Year<sup>21</sup>

FIGURE

2.5



The cash money method uses exclusively monetary indicators (data on the cash in circulation and time deposits in the banking system), which suggests that the initial data used for its calculation are more accurate. With this method, a number of assumptions are made, particularly as to the speed with which cash circulates in the formal and shadow sectors of the economy, exclusive use of cash in the shadow economy, and ratio of cash and time deposits.

It should be noted that estimates of the shadow economy's volume include only those informal transactions where the Armenian dram was used. Transactions in Russian rubles or US dollars were not included in the computation, since theoretically and practically it is impossible with this method to calculate the volume of informal transactions done by foreign exchange.

Assessments using the cash money method indicate that the shadow economy in Armenia was at its lowest level in 1994 (which can be explained by the recent introduction of the Armenian dram), and then began to increase, reaching its highest level in 1997 (66% of GDP). The increase of the shadow economy in 2000 can be explained by the unstable political situation at the beginning of the year, following the known events of October 1999, which prompted people to evade taxes and operate in the informal sector of the economy. It bears mentioning that, if informal transactions in foreign exchange are taken into account, the assessed indicators would increase by 10-15%.

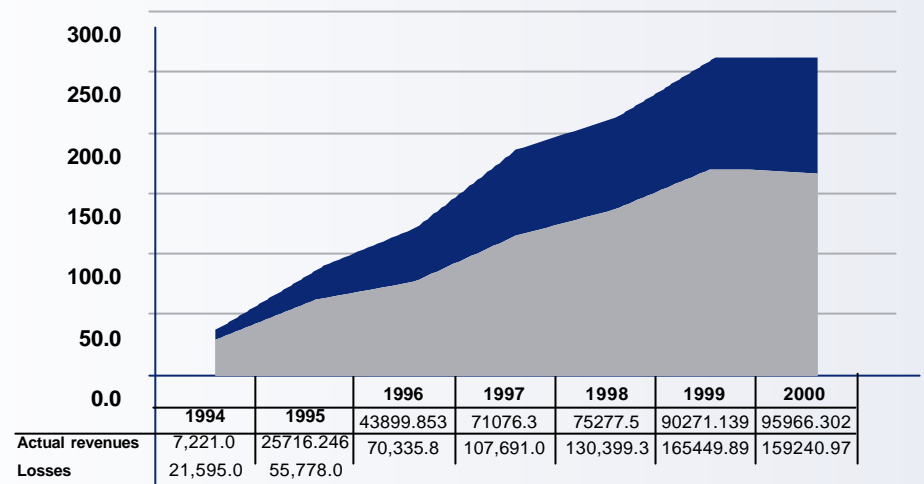
<sup>18</sup> For details see dissertation of B. Tunyan, Shadow Economy in Armenia and Struggle Against It, Institute for Economic Research of the Armenian Ministry of Finances and Economy, December 2000

<sup>19</sup> Data for "unregistered economy" were taken from the official paper presented by RA NSS. Respective evaluations for 2000 were not available.

<sup>20</sup> Monthly and quarterly data on different indicators were taken from IMF International Financial Statistics 2000, as well as Armenia Economic

With the help of these estimates, it is possible to calculate tax revenue losses that the state budget incurs because of the shadow economy. It should be noted that the estimates presented here include only the losses in revenues caused by the non-collection of taxes. Losses incurred by the state and society due to non-payment of mandatory social payments, which are also huge, are not included in these computations.

Actual state budget revenues collected from taxes and tax revenue losses incurred by shadow economy in 1994-2000 in million drams.



Bagrat Tunyan

## 2.9

### Corruption as an Obstacle for the Economic Development of the Country

The history of mankind shows that corruption has existed for thousands of years. Seven centuries ago Dante has assigned bribe-takers to the lowest layer in his *Inferno*. According to the Constitution of the United States, corruption is one of the felonies that can lead to the impeachment of a president.

In accordance with the most common and frequently used definition, corruption is "misuse of public power for private benefit"<sup>22</sup>. In some cases private benefit is pursued not by an individual but by a political party, a group in the society or a family member. It bears mentioning that corruption should not be equated with bribery, as this is only one of the manifestations of corruption.

Of course, corruption is mainly connected with the functions performed by the state<sup>23</sup>, especially in monopolistic and hard-to-control spheres. It exists in states regardless of stage of development - transition, unstable or post-industrial. In this context it is important to know how the functions reserved by the state are performed.

The processes involving the development of a market economy, establishment of new political and social infrastructures, and transformation of new social values in Central and East Europe, the former USSR and, including Armenia, created an environment conducive to the development of corruption.

In terms of its prevalence, corruption can exist on personal, institutional and system-wide levels.

<sup>22</sup> This definition implies that corruption cannot exist in the private sector. However it does exist, especially in large corporations (particularly in procurement and human resources departments).

1. On the personal level, corruption is highly individual. Some officials or politicians abuse their public position, and this is more a question of an individual's character, rather than the nature of the existing system.
2. On an institutional level, corruption obviously can be found in certain areas of the economy (for example the most profitable economic sectors, or areas most closely controlled by state).
3. System-wide corruption is spread virtually throughout all areas. It is implemented with involvement at personal and institutional levels. System-wide corruption is actually the most dangerous and the most difficult to overcome.

Unfortunately, corruption in Armenia currently has

spread to all spheres of life and all forms, i.e, it bears the danger of acquiring systemic prevalence. At the same time, it is interesting to study the results of a research-survey conducted in the framework of the Caucasian bureau of the Institutional Reforms of the Informal Sector (IRIS) program, whereby investors determined that "...the corruption level in Armenia is lower than that in other CIS countries and corruption is not systematized. The old system of corruption has been eliminated and a new one has not been created yet". However, the investors consider this situation to be less favorable, since the corruption is unpredictable. Other sources, for instance Transparency International 2000 perceived corruption in Armenia as rather high, scoring it at 2,5 in a range from 10 (highly clean) and 0 (highly corrupt) (see NHDR 2000, p. 94).

## 2.3 BOX

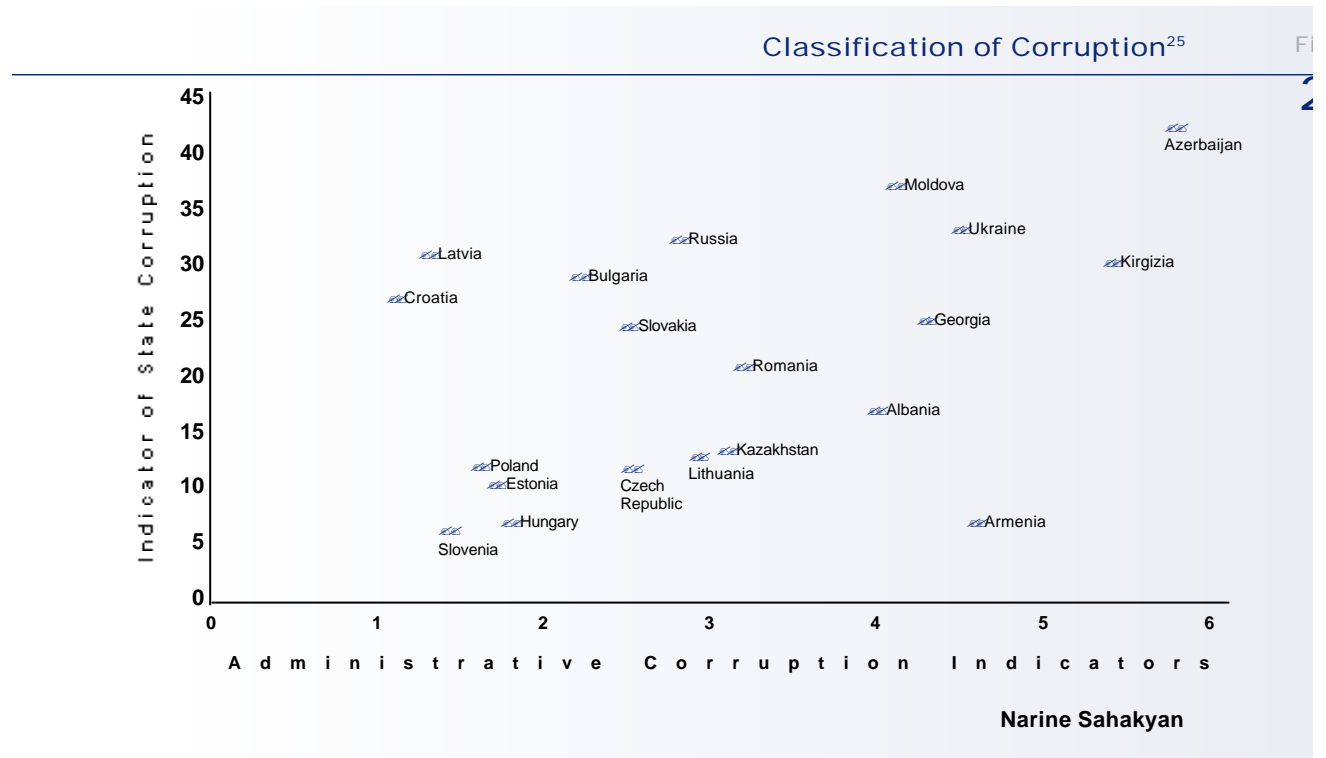
### Specifics of Corruption in Countries undergoing Transition

For revealing differences between the origins of corruption and its consequences in the transition countries, the World Bank has elaborated a new classification - state capture and administrative corruption.

State capture refers to the activities of individual persons, groups and companies in the public and private sectors which are targeted at influencing laws, decisions or other regulations that form a national policy with the purpose of securing a prohibited and non-transparent private interest for public officials. It has many forms, depending on the subject of capture (legislative, executive, judicial) and those who carry out it (private company, leader of a political party, narrow interest driven group). All forms of state capture are directed towards getting benefit from the state through distortion/violation of the legal regulations and are accompanied by significant losses for the society. The state capture is widely spread in those countries where the economic power is highly centralized, the social security is weak, and the formal means for political influence and mediation of interests are underdeveloped.

Administrative corruption refers to intentional-targeted violations of existing laws and regulations, which provide benefit for public or non-public individuals thus creating illegal and unregistered private income. The foundations of this type of corruption are the discriminatory and arbitrary application of laws and regulations, provision of public services and making exceptions by some state officials. The "cost" of the administrative corruption in the CIS countries is 3.7% of the income of companies, 2.2% in Eastern European countries and 4.6% in Armenia<sup>24</sup> (Figure 2.7).

Armenia belongs to the middle-high classification group. This group includes countries where the main problem is administrative corruption, whereas the level of state capture by the private sector is lower than in other countries in transition. The basic indicator for this group of countries is weak state institutions in terms of distribution of public goods and regulated function as well as internal control and accountability in these institutions.



The factors that contribute to creation of corruption in Armenia can be divided into two groups: **demand for** and **supply of** corrupt activities. The most important factors that stimulate the demand (by the society) are the following:

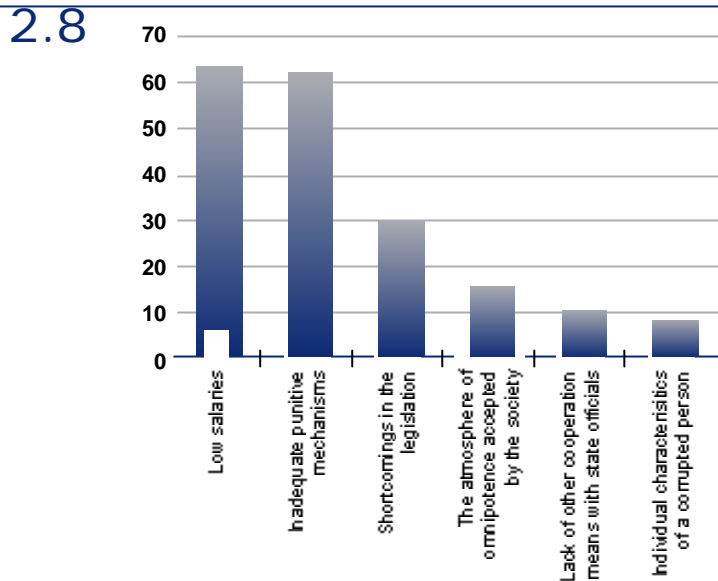
- ✍ authorities and procedures (provision of licenses, certificates, control over profitable areas of industry, implementation of state procurement, etc.),
- ✍ some specifics of the taxation system (provision of privileges, system of advance payments, procedures for writing-off or rescheduling the debts, etc.),
- ✍ access to financial resources, goods and services at prices lower than the market rate (provision of privileged loans, implementation of state procurements, etc.).

The factors that affect the supply of corrupt activities by state officials are the following:

- ✍ administrative bureaucratic traditions,
- ✍ the salary levels in the public sector,
- ✍ system of penalties or its absence,
- ✍ lack of institutional control or inefficiency,
- ✍ non-transparency of application of laws and regulations,
- ✍ the behavior of authorities, their activities, etc.

According to a public poll, the factor that has the biggest effect on corruption in Armenia is the low salary of civil servants and the lack of punishment mechanisms for corrupt activities (Figure 2.8).



FIGURE The Main Reasons of Corruption in Armenia<sup>26</sup>

Two other factors have had an impact on the level of corruption in Armenia: expansion of international trade/business and the privatization process. Expansion of international business creates such situations when payment of bribes<sup>27</sup> becomes extremely beneficial for the companies wishing to buy opportunity for getting the best conditions for entering privileged markets or getting tax benefits. In the series of economic reforms implemented during the last years, privatization transactions are closely connected with corruption problems. In transition economies state or public enterprises are the major source of corruption.

As in almost all transition economies, in Armenia there are widespread entrepreneurial practices outside the framework of legal and administrative functions that shape the relationship between state officials and the private sector. "Facilitation fees" are frequently used for getting licenses and certificates. It has become a universally accepted practice. Today any Armenian citizen is convinced that without bribes it is not possible to protect his/her legal rights. The involvement of individuals who have influence and connection in these processes is not rare either. The entrepreneurs trust and rely on so-called "umbrellas" (roofs).

From the point of view of the business community, the legal framework is considered quite good, however the implementation of laws is far from adequate. The laws are frequently changed, whereas the instructions and regulations for implementation of these laws take effect with considerable delay. Both the civil servants and the private sector are not well enough informed about the recent legislative changes and interpretations

of their application.

Many local and foreign investors exclude the possibility and efficiency of applying to courts and adjudication mechanisms. Instead, they prefer paying "facilitation fees" and getting "umbrellas". Quite often, in order to prevent future complications, large investors solicit the support of the country's top officials before starting their activities. Unfortunately, today this is the most reliable system of guaranties in Armenia, in spite of its negative consequences.

The negative consequences of corruption for society conventionally can be divided into four groups: political, economic, social and development problems.

Where **political** consequences are concerned, it is important to note that because of mass legal violations and corruption, the legitimacy of authorities and the current political system come under question. In general this endangers<sup>28</sup> the trust and confidence of people in state structures, which is especially essential during this difficult period of reforms. In reality corruption in Armenia is a method for the political forces to gain and keep different levels of power and mechanisms of political control.

From the **economic** point of view, corruption contributes to the illegal redistribution of incomes in society. These incomes are not only outside of the control of state institutions, but they are also undeclared and corresponding tax revenues do not go the state budget thereby contributing to the inefficient redistribution of income among the population. Corruption and the shadow economy are interlinked - on the one hand the shadow economy contributes to the development of corrupt elements, on the other corruption itself stimulates the

<sup>26</sup> Civil Society Development Union, 2000, Perception of Corruption in Yerevan.

<sup>27</sup> Of course the most widespread form of corruption is bribery. However it would not be accurate to equate one with the other. Corruption can be expressed in forms of protectionism, theft of public goods and services, corruption of political life and other ways that negatively affect the society.

expansion of the shadow economy. Generally, by deterring healthy economic competition corruption has a negative impact on economic development.

From the **social** point of view, the inefficient redistribution of incomes, inefficiency of the public sector and low quality and quantity of services provided by the state, actually exacerbate conditions for the socially vulnerable population.

As for **development**, corruption reduces the efficiency of programs that are implemented by donor states and organizations that are directed towards development of various sectors. As a result, the volume of these programs is reduced. This also can explain the interest of donor states and organizations in eliminating corruption. Anticorruption initiatives cannot be implemented independently from state system reforms. Any program aiming at the reduction of corruption levels should be based on relevant measures targeted at the elimination of already mentioned factors that affect the demand and supply of corrupt activities.

It should be mentioned that the Armenian Government has already adopted a concept for fighting corruption

and currently is elaborating an anticorruption program, which is supported by different international organizations (Box 2.4). It envisages improvement of legislation, particularly in economic, judiciary and legal areas, as well as adoption of a special package of anticorruption laws. It aims at limiting so called "rent seeking" activities of public officials as well as improvement of the efficiency of state institutions through implementation of reforms in state system administration. The fact that an anticorruption commission was created by the decision of the Prime Minister of Armenia is also testament to the serious intention of the Armenian Government to wage an unconditional and consistent struggle against corruption.

One of the most important, though insufficient, preconditions for fighting corruption is the goodwill, interest and determination of the country leadership and political elite without which any anticorruption program will be doomed to failure. On the other hand, the success of that program greatly depends on the Government's recognition of and its efficient cooperation with the society that has the necessary capacity and interest in solving corruption problems.

## The Main Directions of Armenia's Anticorruption Program

2.  
BOX

The main directions of the anticorruption program elaborated by the RA Government are the following:

### 1. Creation of regulatory, legal and institutional prerequisites

Adoption of Laws *On the struggle against corruption; On civil service; On political parties; On a state agency for fighting corruption, On lobbying, On prevention of legalization of property acquired by illegal means, improvement of antitrust legislation.*

### 2. Improvement of judicial and law enforcement systems

Adoption of a new Criminal Code, application of a diversified approach to corruption and introduction of criminal-judicial norms for broadening the scope of subjects of specified crimes, application of administrative penalties.

### 3. Increased role and importance of civil society institutions and international experience

Inclusion of the right to perform certain social functions of the state by civil society institutions in the legislation. accession to the Council of Europe conventions on criminal and civil rights issues and struggle against corruption.

Narine Sahakyan

# 2.10

## Budgeting Process

The economic stability of the state, the rate of economic growth, targeted and complete accomplishment of the reforms are primarily conditioned by the efficient implementation of the budgeting process. This is the theory. In reality the problems that are regularly documented in Armenia during the implementation of the budget are the following:

- ✗ corroboration of discrepancies during the defining stage of programmatic indicators;
- ✗ untimely (or absence of) definition of quarterly proportions for state budget implementation by the Government (with the exception of the budget for 2001, when they were defined at the beginning of the year);

- ✗ failure in implementing numerous guaranteed budget lines;
- ✗ lack of complete information on community budgets,
- ✗ refusal to carry out a budgetary sequester even under obvious implementation failure.

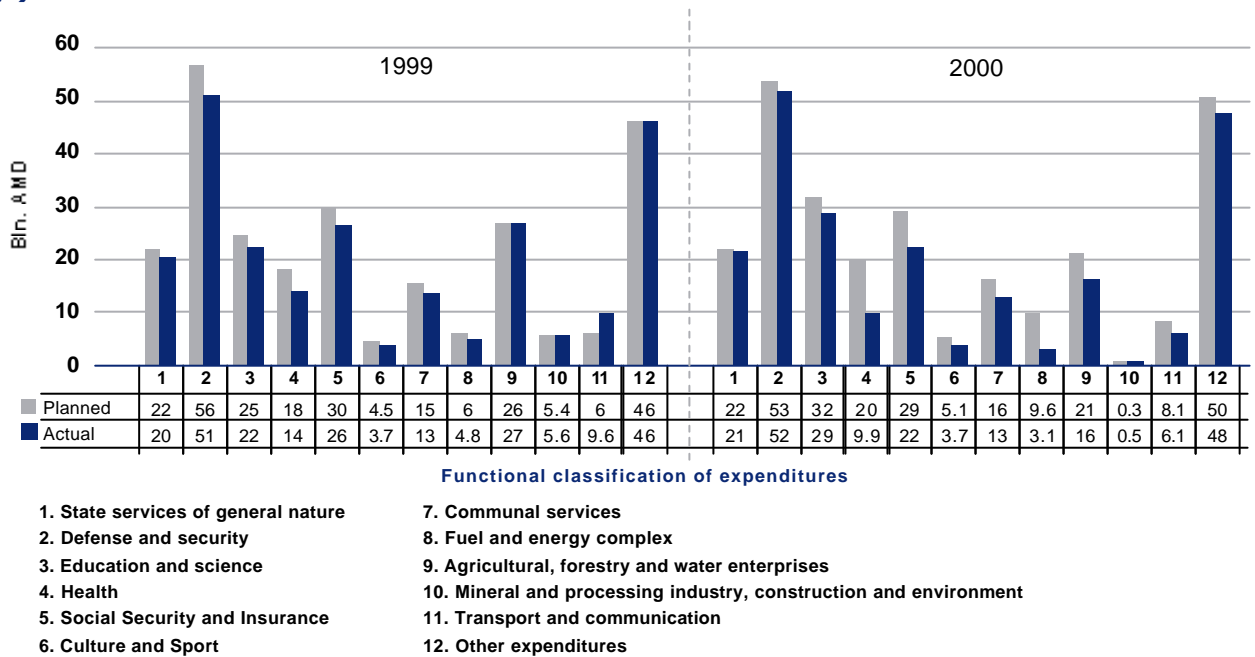
For instance, during the first half of 2000, in terms of revenues and transfers the execution of the budget was 34.7%, by expenditures - 31.9%<sup>29</sup>, and this clearly indicated that the annual budget would not be implemented. However, the necessary sequester, which would allow the implementation of the budget within the limits of existing revenues, was not applied. It became an accepted practice to raise the budget implementation rate artificially by clearings. It should be defined in the law that

even in cases when there is a need for making clearings, their amount should not be reflected in the implementation figures of the state budget. Particularly in 2000, 23,719 billion AMD worth clearings were made, which amounted to 11.3% of the state budget implementation rate (Figure 2.9).

Measures for increasing the efficiency of budgetary expenditures are rather inadequate during both stages of demand formulation and their control. Consequently the budgetary expenditures are quite frequently diluted and do not yield the desired results. In this regard the unified system of state procurement, which started to operate according to the law *On state procurements* adopted in 2000, may substantially economize the budgetary expenditures.

Figure Implementation of state budget expenditures in 1999-2000

## 2.9



Drastic changes in the budget structure are possible if 4-5 billion AMD worth of annual subsidies to energy, as well as water resource (drinking and irrigation) systems be eliminated. The latter is possible if a principle of mandatory payment for the use of resources as well as services be reinforced implicitly. The additional resources which could emerge due to reduction of subsidies as well as improved tax administration (15 billion AMD, according to independent evaluation) given expenditure priorities, should go to the cover the salaries of the budgetary sphere, pensions, and decentralization of the budget expenditures in favor of local budgets, and implicit allocation of the subsidies earmarked to them (currently is around 5% of the budget), as well as further increase in their amount through the redistribution of tax revenues. Decentralization of budgetary means, given their highly centralized nature, is seen as one of the most important ways to make expenditures more targeted in Armenia.

Under circumstances when the budgetary resources are already scarce and its guaranteed budget lines are not implemented, the practice of provision of loans from budgetary sources is questionable. As a rule, these loans are not repaid on time, often they are misused and are regarded as specific form of non-returnable budgetary financing.

In terms of increasing the efficiency of accounting budget revenue and expenditures it was extremely important during the recent years to develop the treasury system where the extra-budgetary funds, particularly the social insurance fund, should be included.

During the transition period there are one-time revenues, i.e. resources generated after privatization that, due to their nature, should not be allocated for current expenditures but they are needed for solving large-scale programmatic issues for the country and cannot be implemented without the involvement of the state, such as development of the necessary infrastructure branches of the economy.

# 2.11

## Creation of an Environment Conducive for Investments

Stimulation of investment mobilization and their considerable share in the economy were and still are extremely crucial for ensuring the required rate and volume of economic growth in Armenia. Analysis of the situation in the field of investments, its existing volume, its distribution by branches and by countries of origin leads us to the conclusion that the current level of investments are quite far from sufficient and too low to ensure dramatic and stable growth, in spite of the following factors which should, in theory, contribute to rising levels of investment:

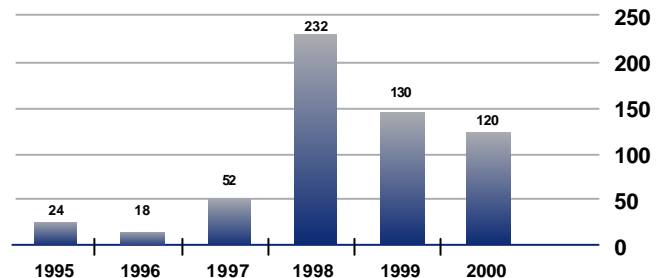
- ✦ the Armenian Government and society realize that investments have a crucial role in the economic development,
- ✦ there is macroeconomic and political stability,
- ✦ legislation for the regulation and infrastructure for the stimulation and protection of investments is in place,
- ✦ as previously mentioned, there is a rich and rather powerful Armenian Diaspora and there are activities that quite vigorously try to involve that potential.

The cumulative sum of foreign direct investments (FDI) from 1995-2000 was approximately USD 580 million (Figure 2.10), which is the lowest among the CIS countries after Moldova, Kyrgyzstan and Tajikistan. The number of investment programs implemented in 2000 has been rather small with the two-thirds of the total volume made by companies already operating in the field (OTE, Gazprom/Itera, etc.). After 1998, more than of the half of investments were made by the mentioned companies, respectively 142 million and 148 USD. As of January 1, 2001 out of 1972 registered companies in Armenia with participation of foreign capital, the investments of only 20 exceed one million USD, and that of only six companies exceed 10 million USD. In 1998-2000, the investments were made mainly by Greek (27%); Russian (26%); Canadian (11%); American (10%) and French (9%) investors and were directed at energy (27%), communications (26%), trade (14%), and food processing (13%) spheres. The volume of FDI amounted to 36 million USD for the first quarter of 2001.

Dynamics of FDI in Armenia

FIGURE

Source: RA NSS, reports of various years



Lack of respective statistics on the impact of the FDI on the industry and trade volumes, employment and other characteristics of the economy's development does not permit a clear evaluation of the overall impact of investments on Armenia's economy. However, it can be assessed as very limited, given the small volumes of investments and their concentration in a very small number of companies. The two largest investment programs implemented in Armenia resulted in the newly created

monopolies in the sphere of communication and gas markets, with all the ensuing consequences. FDI has had some impact on the development of exports, although mainly in terms of products heavily reliant on raw materials (diamond cutting, tobacco production, gold mining, etc), while the investments should be directed towards the development of those branches that have internal potential for restructuring industry and enhancing its economic competitiveness.

2.

The as yet small volumes of investments suggest that a real investor does not consider Armenia as an attractive country. A number of factors influence investment decisions: political and social stability in particular, accessibility of markets, existence of relevant legislation, correspondence of labor quality to its price, accessibility of resources, high technologies and finances, expected profit and market potential, quality of infrastructures, etc.

At the same time, the geopolitical location cannot be ignored. In some cases (particularly in Armenia's case with the partial blockade and the "ongoing" conflict in the region) this may have the strongest negative impact for attracting investments. Some of the above-mentioned factors have objective reasons and hardly can be changed whereas the rest are dependant on the current economic and investment policies.

The peak of the FDI was registered in 1998, which was mainly ascribed to the biggest privatization deals taken place earlier. Of course, the decline in investment activities during 1999-2000 can be also explained by the October 27 events, which seriously knocked down investors' trust in Armenia and its political stability. Economic consequences followed immediately. At the end of 1999 and in the first quarter of 2000 the volume of investments was negligible. The problem of improving the investment rating of Armenia became extremely vital<sup>30</sup>.

All studies of the investment environment of recent years indicate corruption and particularly the administrative obstacles as major factors deterring attraction of investments<sup>31</sup>. For example, 78% of investors mention administrative red tape, 90% admit that for the successful operation of their businesses it is extremely important to cooperate with significant political and economic groupings (being under their "umbrella" / roof), 87% think that illegal "facilitation fees" or bribes are an inalienable part of the business.

Consequently, legislative changes in the investment promotion policy, improvement of the investment environment and attraction of investments require undertaking a number of high-priority steps, such as:

- ⚡ Ensure predictability of legislation and regulations for investments (foreign and domestic), clearly leaving little room for interpretations. Judicial system should be trustworthy (particularly in relation to investment regulations and entrepreneurship). The process of signing inter-governmental investment agreements should be continued, creating additional guarantees for foreign investors. These types of agreements are especially important for high-risk countries, including Armenia.
- ⚡ Establish the same conditions in the legislation for foreign and domestic investors. This issue is especially important now, when the volumes of domestic

investments have considerably increased. It seems that the capital that have "fled" Armenia in past years is starting to return.

- ⚡ Legally define the possibility of resorting to international procedures for dispute settlements.
- ⚡ Finalize the development of investment supporting infrastructures and efficiently coordinate their activities. Stimulate the active involvement of the Business Support Council in the promotion of investment policies and guarantee the efficient operation of the Armenian Development Agency.
- ⚡ Take into account socio-cultural factors in the current international practice (e.g. national culture, religious, social-psychological peculiarities), their impact during the establishment of joint ventures and privatization of enterprises by foreigners; form a positive attitude towards investors and prepare the Armenian enterprises and entrepreneurs for inclusion into qualitatively new economic relations.
- ⚡ Develop special strategies for investors from the Armenian Diaspora, acknowledging the fact that these are the real investors in the economy.
- ⚡ Develop a system of Armenian commercial representations, having as an objective the attraction of foreign investments.
- ⚡ Use the support and expertise of international community in related spheres, for instance to establish a comprehensive information database of possible investment projects in the country. This will facilitate an accurate assessment of the investment potential within the country as well as present the Armenian economy to international financial organizations and specific investors in a professional and competitive way.
- ⚡ Use the support and know-how of the international community (WB, UNDP, UNIDO, USAID, IFC, TACIS, Know-How Fund, etc.) in form of technical assistance for the improvement of the sphere.
- ⚡ Declare areas of priority for investments and legally define the state's approach as to the development of these areas and investments made therein. As of present, only information technologies were officially declared as a priority for investments (December 2000).
- ⚡ Create an insurance system corresponding to international standards for insuring the investments against possible risks.

Economic growth in the development scenario of any country is a necessary and critical issue, however, it cannot be an end in itself. In Armenia it should be aimed at poverty reduction, which in turn requires qualitative changes. The latter should address deep polarization in incomes and inequality, promote investments in the human capital, small business, and social infrastructure.

<sup>30</sup> The need to raise Armenia's investment rating explains why so many business forums were organized during the last two years, especially the business forum in New York which was quite well attended.



Armenia's  
**Socio-Economic**  

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Conditions  
and Policies



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Included in the Constitution of the Republic of Armenia are guarantees for state sovereignty, democracy, social justice and the rule of law. This implies that the State must be held responsible by the people - the real holders of power, for creating a favorable environment in which the family, organizations and society as a whole may thrive and flourish.

Without fundamental transformation of all aspects of social life, implementation of reforms in the social sector is impossible. Success can be measured primarily by an indication of increase in living standards and depends considerably on the attitude of various strata of the population towards the process. Reforms in the social (as well as in any other) sector require the following preconditions: creation of a favorable environment and political will, elaboration of public awareness on the reform agenda, feedback, consensus building, establishment and enforcement

of a corresponding legal framework. The process of social reforms carried out in Armenia could be conditionally divided into two stages with the first stage encompassing 1990-1995, which witnessed the establishment of a new type of relationship between the state and the individual. At this stage of market reforms, social policy was considered an element of the overall economic strategy. The second stage, 1996 - present, may be considered a phase in the creation of an independent system of social protection having components of social security and social insurance with various sources of funding.

Analysis of the dynamics of social policy indicators suggests that the reforms of the social sector implemented in Armenia during the ten years of independence have not been based on a system of clearly identified priorities and objectives of social policy and have been of a more tactical rather than strategic nature (Table 3.1).

### Main socioeconomic indicators over the 10 years of independence in the Republic of Armenia (1991-2000)

TABLE

3.1

Indicators	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
The number of employed in the economy (thousand persons)	1672	1578	1543	1488	1476	1436	1372	1337	1298	1283
Level of unemployment (%)	-	1.8	5.3	6.6	6.7	9.3	10.8	9.4	11.2	11.7
Monetary income of the population, Mln. AMD	14.7	41.7	395.0	93.7	289.3	434.3	514.4	581.3	627.1	698.4
Monetary expenditures of the population, Bln. AMD	12.6	27.5	250.1	84.9	274.5	423.6	519.8	578.9	631.7	682.0
Average monthly nominal salary, AMD	337	1395	12173	1748	7680	9469	13581	18000	20157	21094*
Minimum salary, AMD	130-140	1200	7350	375	540	830	1000	1000	5000	5000
Average monthly pension, AMD	167	1497	9024	1509	2584	3114	3673	3793	4421	4481
The deposits of the population in the savings banks <sup>1</sup> , Bln. AMD	2111	2284	10300	146	952	2148	3124	5524	8073	12282

Note: For 1991, 1992 and 1993 the calculations on income, expenditure, salary and deposits are made in rubles.

Currently, 68.3% of the population is not content with the existing situation, and 74.3% is dissatisfied with the course of the economic reforms<sup>2</sup>. The social reforms implemented in Armenia do not yet adequately address the fundamental social issues of the population. The drastic decrease of living standards and the quality of life have brought dangerous symptoms of deterioration of the social fabric such as increasing criminality, morbidity, disability and mortality rates. Also of concern is the fact that the positive shifts in the social development of certain indicators have not transformed into sustainable trends.

Among positive shifts are the structural reforms in the sector, the creation of new structures for social protection, the adoption of numerous legal instruments for the regulation of the sector, programs on training and retrain-

ing of social workers, a more coordinated cooperation with international organizations, relative automation of the management system for the social sector, and numerous programs of reforms. The future development of the sector mainly depends on the extent and consistent implementation of the later.

Social policy in Armenia is yet in the formation stage. Current drawbacks are due to the lack of a comprehensive concept for social development based on the real economic opportunities of the country, the deficiency of the legal and institutional framework for the sector, as well as the lack of a system of monitoring and analysis of social indicators that would provide for more predictability of the social consequences of the reforms, such as poverty.

\* The calculations are preliminary

<sup>1</sup> Starting 1995, commercial banks are also included.

# 3.1

## Poverty and Social Assistance System

In the countries of the former Soviet Union, such as Armenia, human and income poverty are new phenomena and have increasingly spread in the past decade. The challenge of the government and civil society is to develop poverty reduction strategies and integrate them into the larger macro-economic framework and budgetary processes.

The estimations of poverty in Armenia are mainly based on the two nation-wide household surveys on living con-

ditions conducted by the National Statistical Service (NSS) in 1996<sup>3</sup> and 1998-1999<sup>4</sup>. Comparative analysis (Table 3.2) did not reveal any recovery trends in general poverty (54.4% in 1996 and 55% in 1998-1999) while certain positive changes were observed in the reduction of severity and depth of poverty as well as in extreme poverty from 27.7% to 22.9%, which is partially ascribed to the introduction of the state system of family allowances starting January 1, 1999.

TABLE Trends in poverty indicators in 1996 and 1998/1999<sup>5</sup>

### 3.2

	1996			1998-99		
	Total	Urban	Rural	Total	Urban	Rural
Level of Poverty, as % of population	54.73	58.8	48.0	55.05	58.27	50.76
including very poor, %	27.67	29.6	24.4	22.91	23.17	22.55
Severity of poverty, %	11.1	--	--	9.0	--	--
Depth of poverty, %	21.5	--	--	19.0	--	--

Despite rather stable economic performance over the past years, Armenia has failed to provide a spillover effect of growth for large segments of the population. In fact, this growth did not contribute to poverty reduction but, on the contrary, due to unfair income distribution, deepened socioeconomic polarization. The proportion of expenditures between the 20% richest and poorest segments of the population is 6.6 times, and 32.2 times by incomes. Armenia is still among the first by income inequality in a number of European, Central Asian, Latin American and South Eastern countries<sup>6</sup>.

The disparity between the economic reforms and the results for social development has led to the loss of consistency between macroeconomic, social and poverty indicators. Despite high levels of human capabilities (98.8% adult literacy, 72,5 years of life expectancy), Armenia's GDP per capita (around US\$ 2,545 in PPP) and its level of poverty are comparable to countries with a low level of development.

Poverty reduction has become one of the most challenging and urgent issues on the Government's agenda and has been sponsored and orchestrated by the international community. Armenia is one of six CIS countries that are working currently on the Poverty Reduction Strategy Paper issues. Preparation of the Poverty Reduction Strategy Paper (PRSP) started already in 2000. As a first step in the process, the Interim PRSP (I-PRSP) was elaborated, a PRSP Steering Committee headed by the Minister of Finance and Economy was established. I-PRSP was adopted in March of 2001 and the Government started preparations for a fully-fledged PRSP.

To ensure participatory and holistic approach towards PRSP, the involvement of independent experts and the civil society organizations are expected to be concentrated on overall coordination and development of scientific - methodological approaches of the program; policy analysis on the status of poverty, goal setting and social

<sup>3</sup> The first survey was conducted in November-December 1996 and included 5,000 households. The WB provided methodological, technical and financial assistance to the NSS. Results of the survey were summarized and published; see "Social Snapshot and Poverty in Armenia", Ministry of Statistics, 1998 and "Improving Social Assistance in Armenia", WB Report No.19385-AM, June 8, 1999.

<sup>4</sup> In 1998/1999 they conducted a comprehensive living standards survey of 3600 families in all marzes, with technical assistance from the WB. See "Social panorama and poverty in Armenia", National Statistical Service, 2001.

orientation of poverty reduction; policy design for poverty reduction through the improvement of management and development of the economy; and public awareness of the process and participatory approach towards discussions and coverage of the main issues.

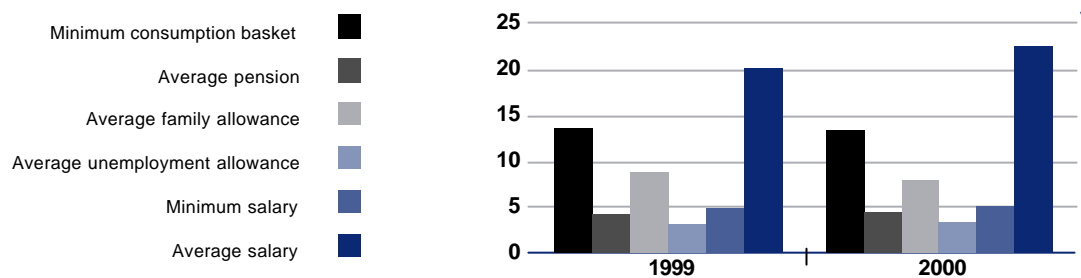
Along with the country's ownership of the process and the end product, the involvement of the international community has been enormous, both in terms of funding and technical assistance. The end product - a full PRSP - is expected to be in line with the country's development strategies, covering development scenarios with a special emphasis on pro-poor economic growth, human development and improvement of state governance. As for the time being, Armenia is trying to address the needs of the vulnerable groups and the poor through social protection.

The first steps for the establishment and implementation of a targeted social assistance system were taken in Armenia back in 1992 - 1995, having as a base various types of allowances paid to vulnerable population groups, as well as in-cash compensations. On 1 January 1999 by government decree a unified targeted system of family allowances was introduced, based on the vulnerability degree of the beneficiary families. Targeted social assistance based on vulnerability was the second important accomplishment of the social assistance system. The system of family allowances (SFA) was based on an indirect method of measuring the level of vulnerability that includes, besides income, other indicators implicitly related to poverty and covered approximately 27% of the population.

Average income of population and minimum consumption basket

FIGURE

3.1



Source: Armenian Social Trends, bulletin 1

The SFA, or poverty allowance, includes a nominal poverty allowance (3,000 AMD which is around 6 USD) and supplements for each family member (1,300 AMD). The fluctuations in the total number of beneficiary families are rather frequent. In January 1999 there were 211 thousand, in May of the same year - 229 thousand, while at the beginning of 2001 the number decreased to 192 thousand. Besides, during March 2001 alone, the Ministry of Social Security (MSS) registered more than 13,000 applications for most vulnerable family status and enrollment in the system of the family allowance.

The introduction of the SFA has been the most considerable and comprehensive program within the social security policy, aimed primarily at ensuring a social assistance system based on the principle of social justice. The experience of the previous years prompted some changes in the procedures for assessment of vulnerability levels thus raising the effectiveness of the system. Regulations for the provision and payment of SFA and one-time financial assistance were adopted by Government decision No. 350 of 3.07.2000. Additionally, social assistance councils have been created under the auspices of the regional centers of social services that for the first time enabled NGO participation in the government's social assistance programs.

The draft law on social assistance elaborated by the MSS as a step aimed at the further development of the

system envisions a transfer to a differentiated allowance scheme aimed at the improvement of economic conditions of the most vulnerable households. The draft law stipulates social assistance in cases of poverty, homelessness, unemployment, disability, old age, long (temporary) loss of working capability, beggary, alcoholism and drug addiction, children deprived of parental care, accidents, victims of domestic violence, confinement/detention (e.g. prisons) and release from confinement. The establishment and training of "social workers," also stipulated by the draft law, is of great importance for enhancing the efficiency of social assistance and improving the socioeconomic situation.

Recent activities in regard to separate groups of the population include the elaboration of a concept on the state policies pursued in regard to women, children and family. It is seen as a prerequisite step in the plight against the negative trends impacting families - poverty, deteriorating health of family members - and will improve family care and children's upbringing. Among other activities are the centralized registration of children for adoption and families for foster care. A Republican Center for Social Service was established as the result of a Government decision dated 2000, October 14, which will provide care for the single elderly and the disabled at home. The Center is looking after 1200 single elderly and disabled in Yerevan alone.

By Governmental decree, the year 2001 was declared "The Year of the Protection of Children's Rights" in Armenia, which is an important impetus in the process, aimed at solving children's problems. The number of chil-

dren that are taken care of in eight state and three non-state orphanages exceeds one thousand. The situation is being eased greatly thanks to international and local NGOs, which are active in various spheres (Box 3.1).

### 3.1 BOX

## The big world of "Orran" for the little

Ten-year old Hermine is the breadwinner in the family. She supports her mother and her physically handicapped younger brother. Her father was a freedom fighter and died in Lachin. Hermine begs in the busy boulevards and parks of Armenia. Few can resist the rosy cheeks and bright black eyes that enhance her contagious smile. The staff of "Orran" invited Hermine and her mother to visit this unique Armenian place. This was not the first time that the family was offered help. Still no one had really assisted them. In this case already the next day Hermine found herself in the loving home of Orran among 44 other children who like her had been begging, selling flowers or just existing in a family that could barely make ends meet. Hermine entered a world very different from the world she knew.

Orran is a center that was created in April 2000 with the aim of removing children of the slums and street life, preventing the rise of extreme indigence and vagrancy in children, helping children of economically deprived families and assisting the lonely, needy elderly. Children walk to the center after school where they receive a nutritious hot meal. After the meal, with the assistance of Orran's staff, the children prepare their homework. A full-time pediatrician and psychologist provide medical and psychological services. A social worker addresses daily problems at school and in the family. Overall, Orran has eight on staff. The children make frequent visits to museums, theaters, amusement parks and churches and receive guests from Armenia and abroad. All of their needs are provided by the center. At six o'clock, the children go home. The philosophy of Armine and Raffi K. Hovhannessian, founders of the Orran is that a child should grow up in the embraces of his/her mother under the family's protective roof.

In the morning hours, Orran provides a brunch to 27 needy elderly, the children, when free, help to serve. The elderly in turn are involved in teaching children gardening, reading and other constructive activities. They also with great joy participate in children's shows, signing and dancing with them, and telling amusing stories.

The relationship between the children and the elderly is very significant. The elderly find in the children their lost and afar children and grandchildren; the children of Orran learn to respect and care for the elderly.

It has not all been a fairy tale for Hermine; Orran's staff is in a constant struggle with Hermine's mother who wants her back on the street. Hermine knows better. She has learned that one needs to earn a living not to beg for one. Hermine and thousands like her need to be saved - Armenia's future and all humanity require it.

**Orran, NGO**

In the transition period women tend to appear in a more unfavorable situation as compared with men: there are more women reported to be poor (from the total poor 53% are women), unemployed and they face more obstacles while trying to escape poverty. The groups

most subject to poverty are families with many children, the unemployed and the pensioners. The latter have suffered twofold, having lost their savings and have no new opportunities to create income.

# 3.2

## Pension Security

The key principle of the social sector in place during the Soviet regime - "the state is the exclusive provider of social benefits" - created stereotypes that left no room for employer and employee responsibilities. These stereotypes also held for the pension security system, where the link between the employee's contribution and the pension has been non-existent, pension entitlements have increased, and finally, the State has maintained the monopoly for pension security.

During the last decade, the legal framework for pension security has changed dramatically. According to the law *On state pension security of the citizens of the Republic of Armenia* (1996), the source of the pensions is the mandatory social security payments to a centralized extra-budgetary fund, with 85% of its resources being spent on the payment of pensions and the rest on insurance premiums.

Currently the pension security operates on "as it comes" basis, i.e. all the financial resources entering the fund are fully spent on pension payments. Under the current system, a person who has worked all his/her life receives the same pension as the one who worked only for several years<sup>7</sup>. The system presently involves 30%

more pensioners than 10 years ago. As of 1 January 1999, one out of six citizens was a pensioner, and each ninth - an old-age pensioner. The ratio of the economically active population vs. the pensioners, that is the index of the load of the pension system (the number of employed per pensioner) is 2.3:1 according to the official figures (1:1 according to expert assessments)<sup>8</sup>. Such a situation, besides the demographic factors, has its source in the system of assignment and payment of pensions (Figure 3.2).

The transition period is marked by a surge in the shadow economy that considerably decreases the collection base of the mandatory social security payments. According to independent assessments, in 1998 the share of officially unregistered economic operations amounted to almost one third of Armenia's GDP<sup>9</sup>. The total impact of evasion from mandatory social security payments may be estimated by comparing the potential and actual collection base (amounts to 38.6%) under assumed 100% compliance. In that case, the payments volume would increase 2,6 times as compared with the current level, and the average pension would have increased from 4,481 AMD to 11,650 AMD.

The number of the employed, pensioners and actual payers into the social security system, 1998-2000

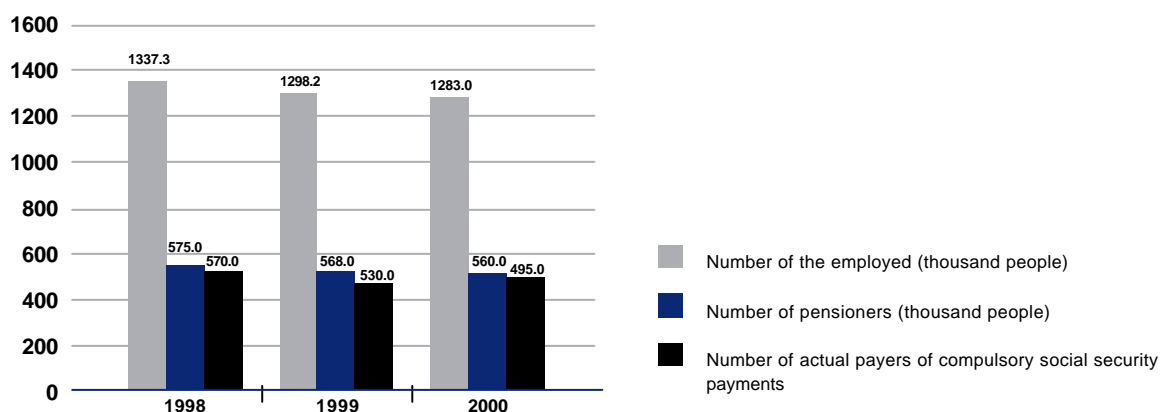


FIGURE  
3.2

<sup>7</sup> The lack of the social justice principle in the national social security system is confirmed by the following fact: "A pensioner visited the Pensions Department at the Ministry of Social Security to express his discontent at the negligible difference amounting to 1500 AMD (around 3 USD) between his and his wife's pensions whereas he had an employment record of 30 years work experience) and his wife has never worked in her life. He was so indignant that was even suggesting that the payment of her pension be discontinued". From an interview with the Head of the Pensions Department of the Ministry of Social Security.

<sup>8</sup> In this case, the calculations comprise hired workers, for whom the employers make mandatory insurance payments, the employed who are in forced leave, and employers do not make payments for them, the workers engaged in shadow economy. Not very reliable statistical data too,



Armenia's current social security systems, including retirement pensions, maintain features more characteristic of social assistance rather than social insurance. Moreover, there is no clear differentiation between the two systems. Presently, the financial resources earmarked for pension security account for between 3.0 - 4% of the country's GDP, (2.6% in 1998), which is lower than the corresponding allocations in the developed countries and even the CIS (except Georgia) and the Baltic countries (10-12%)<sup>10</sup>.

The "non-insurance" load of the pension security in Armenia is rather heavy. Today, 8.3% of the total number of pensioners is entitled to social pensions (without the obligation to make insurance payments). Significant amounts are spent for paying the pensions of those entitled to privileged, i.e. early retirement (Figure 3.3).

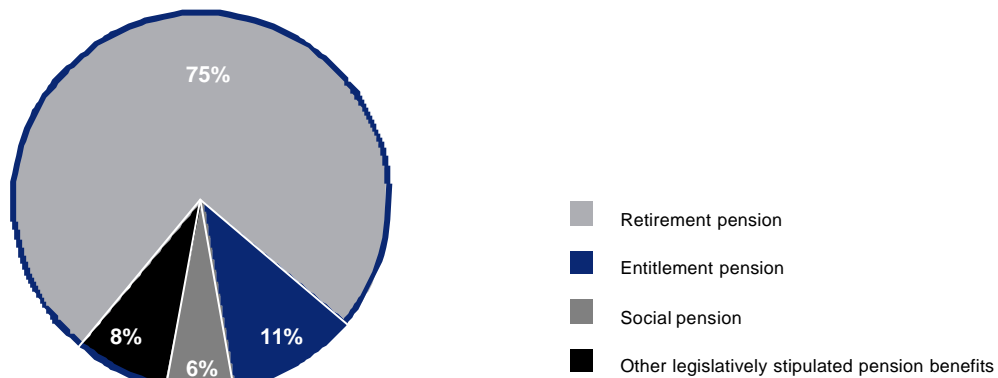
The pension system is funded by insurance pre-

miums collected in a social security public fund (90.3% is paid by the employers, and 9.7% - by the employees). The role of the State, as a main donor of the pension security system, has been drastically reduced. While in 1991 the state budget financed 70% of the system, at present the budget allocations stand at only 4.81%, reflecting a 14-fold decrease.

The roles and the functions of the actors of the pension system - the state, the employers and the employees, have changed fundamentally. At the same time, the old principle of operation still holds, i.e. it is still based on the distribution relationships and the principle of "common stock". The pension size does not yet depend on the size of insurance payments. "Harmonization / Egalitarianism, i.e. the non-insurance character of the pension system, is viewed as the main obstacle in the way of its development.

FIGURE 3.3 Distribution of financial resources for the pension system

### 3.3



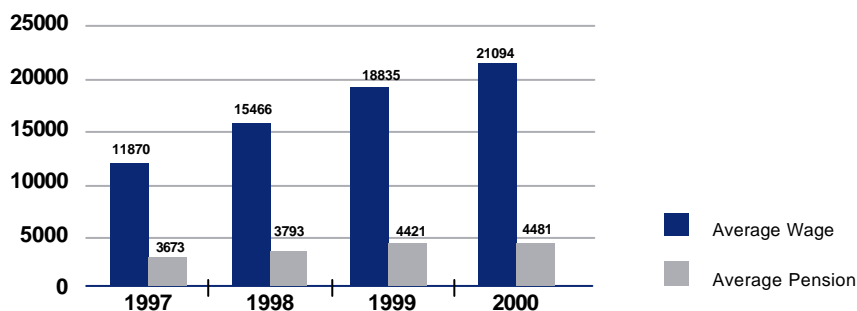
According to the forecasts, the ratio of the population at 65 and above years of age will reach 19.6% in 2020 and 27.9% in 2050<sup>11</sup> viz. the current 11,3%<sup>12</sup>.

The objective of any pension system is to provide the employee with an income equal to what s/he received prior to retirement. This is why the social security payments are deducted from the wage fund of enterprises (amounting 28%) and the employee payrolls (amounting

to 3%). At the same time, the current situation is such that payrolls are established and adjusted according to laws different from those regulating the pension size and adjustment, i. e. the pension and the wage are on different sides of the wall. According to RA NSS, the average wage level is considerably lower than the minimum living standard (Table 3.1 & Figure 3.4) and the net average wage is not enough to ensure at least the minimum living standard.

FIGURE 3.4 Average wage and pension growth rates, 1997 - 2000

### 3.4



<sup>10</sup> "Ի Գնոյ". Առաջին համարիչի հրատարակումը ԵՊՀ. 1999 թ. N11, հոտ. 56.

Under these circumstances, the compensation index of the pension system - the ratio of the average pension vs. the average wage, amounts to only 21.2%, and the average pension in Armenia (approx. 4,500 AMD) covers only 17% of the price of the minimum consumer basket<sup>13</sup>. This indicator has never exceeded 35% in Armenia, while it amounted to 50% during the last years of the Soviet Union. Besides, a growing tendency for shifts from one employment status to another such as hired labor force - self-employed - unemployed - company shareholder - employer, etc., results in the emergence of unregistered employment relations with no commitments for mandatory social security payments.

To improve the system, the course of reforms should emphasize the following two aspects: program policy development and appropriate administrative management. Numerous duplications of functions and lack of clear separation between the duties and liabilities of different bodies involved in the management of the pension system (Ministry of Social Security, Social Insurance State Fund, Ministry of Finance and Economy) and lack of any clear responsibility for the "end product" have ren-

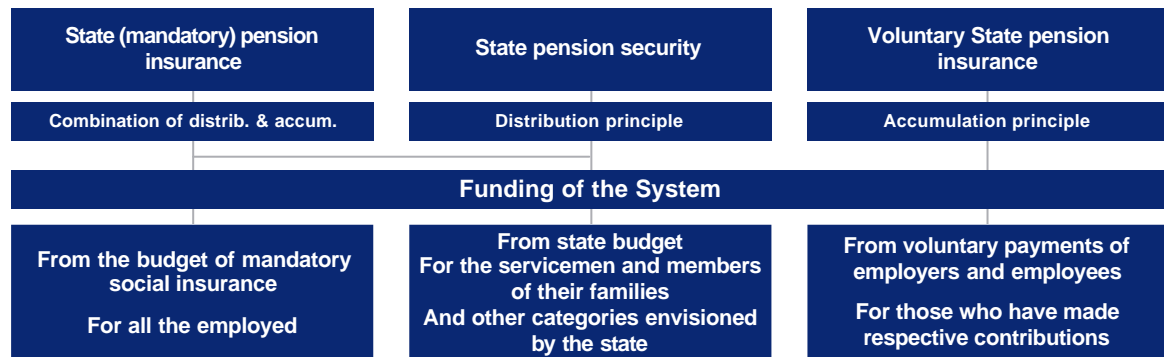
dered the system ineffective, while management has never been regarded in Armenia as an "effectiveness factor". Of strategic importance is the creation of a pension system, which, together with assigning a new role to the State, will create favorable conditions for the members of the society to "earn" their pension, and limit attention on those who cannot take care of themselves.

In a comprehensive setting, the process should comprise the creation of a new pension system model, the reform of its regulatory base, and legislatively stipulated division of rights, functions and responsibilities between state and local self-governance bodies based on social partnership.

The pension security reform should begin with an adjustment of the existing institutional framework. To this effect, the MSS designed a pension system stabilization program aimed at preventing the further aggravation of the crisis in the sector. It has also produced a draft law on state pensions, which envisions state pension insurance, state pension security and voluntary pension insurance (Figure 3.5).

The structure of the new (suggested) pension security system in RA

FIGU  
3.



According to the draft law mentioned above, the calculation mechanism for pensions has been changed, introducing the same age of retirement (63) and the years of mandatory insurance (to make 25) for men and women (the current law has a differentiated approach for them).

Besides, the pension system has already started the process of individual (personalized) registration of beneficiaries that would facilitate estimating the size of each individual contribution to the system and corresponding adjustment of the pension size.

# 3.3

## Employment and Labor

The analyses of the labor market of Armenia from 1994 to 2001 reveal that its situation is still extremely tense, with growing disparity between labor supply and

demand. As for the employment issues, they have been further aggravated (Table 3.3).

TABLE Basic Employment Indicators in Armenia

### 3.3

INDICATORS	Unit	1992	1993	1994	1995	1996	1997	1998	1999	2000
Amount of labor force	thousand persons	1607,2	1630,2	1593,1	1581,9	1583,5	1538,3	1476,4	1462,4	1447,2
Number of the employed	—,,—	1578	1543	1488	1476	1436	1372	1337	1298	1283
Number of the unemployed	—,,—	29,1	86,9	105,5	105,5	147,9	166,1	139,1	164,2	169,5
Number of the unemployed with Higher education	—,,—	12,2	14,9	15,2	14,8	18,8	21,6	16,4	20,1	18,4
Secondary vocational education	—,,—	18,7	25,7	22,9	31,3	36,2	39,4	31,8	40,2	36,7
Number of the unemployed out of which White collar	—,,—	29,9	33,7	36,4	46,2	55,7	72,3	49,2	63,7	54,2
Blue collar	—,,—	46,8	56,0	56,0	83,9	99,8	102,1	84,6	111,2	99,7
Number of the unemployed by age Up to 30 years	—,,—	39,1	46,9	47,7	59,6	70,6	69,7	49,6	54,4	45,5
30 - 50 years	—,,—	29,9	36,1	36,2	61,0	75,1	88,8	73,2	105,0	94,6
50 and above	—,,—	7,7	8,4	28,6	11,1	13,6	15,9	11,0	15,6	13,8
Number of job placements by employment agencies during the year	—,,—	4255	5351	4075	2758	4418	4091	5379	10702	10557
Average duration of the unemployment allowance	Month	5,6	4,4	4,1	4,0	8,5	8,5	8,5	8,5	8,5
Level of unemployment	%	1,8	5,3	6,6	6,7	9,3	10,8	9,4	11,2	11,7

\* The average number of the labor force is average annual and the level of unemployment is calculated in regard to that indicator

During the last years, Armenia's labor market has demonstrated an increasing tendency in hidden unemployment and hidden employment. This may be ascribed to employers engaged in unregistered operations (especially in the private sector), the unregistered employees, as well as the unregistered self-employed (41.3% of the total self-employed)<sup>14</sup>. The "hidden unemployment" (calculated according to an ILO methodology) amounted to 12.7%<sup>15</sup> in 2000, but in reality it is higher and includes the invisible underemployed, and a part of landowner farmers who lack the capacity to cultivate the land but are not registered as the unemployed.

In 2000 the Republican Employment Agency (REA) reg-

istered 178,767 unemployed citizens of which 153,919 were given the status of the unemployed. The number of the unemployed beneficiaries as of December 2000 was 10,900 (an average unemployment benefit is 3,185 AMD, approx. \$6). During 2000, the REA found jobs for 10,557 unemployed. The officially registered unemployment level (calculated as a ratio of the registered unemployed vs. the economically active population) in 2000 stood at 11.7%, and in 1999 - at 11.2%<sup>16</sup>.

Yet, according to preliminary results of an employment sample survey undertaken in 1999 among 1,075 households, and based on the ILO definition of the "unemployed"<sup>17</sup>, the actual level of unemployment was 34.4%.

The number of the long-term (1 year and more) unemployed continues to remain high and as of 1 January 2001 accounts for 73.5% of the total number of the unemployed.

According to regional data<sup>18</sup>, the unemployment level in the disaster zone, i.e. Shirak region, is higher than the country average by a factor of 2.1; in Syunik region - by a factor of 1.9; and in Lori region - by a factor of 1.6. Of the unemployed population, 94.9% is concentrated in urban areas, with 29.7% in Yerevan, 16.8% in Gyumri, and 7.7%

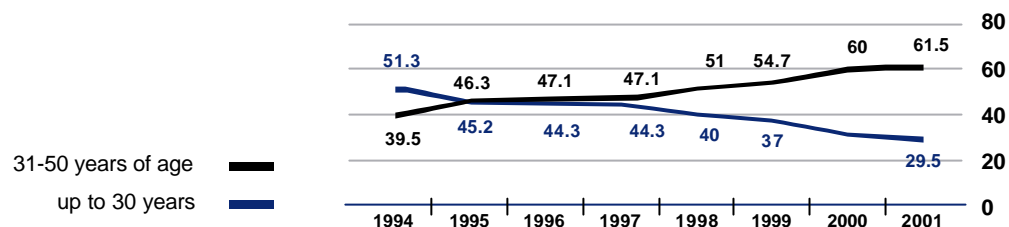
in Vanadzor. The ratio of women in the total number of the unemployed continues to remain high and as of 1 January 2001 stood at 64.6%. The proportion of women among the unemployed remains high and amounted to 64.6% as of January 1, 2001. The educational level of the unemployed has remained practically unchanged (Table 3.3).

The analysis of the age distribution of the unemployed (Figure 3.6) shows an increasing ratio of the 31-50 age group, which indicates a need to develop a system of professional and vocational training services.

The age distribution of the unemployed in Armenia

FIGURE

3.6



In spite of the active stance of the Government in terms of employment generation and a series of measures taken to alleviate the tension in the labor market, the expert projections (up to 2007) indicate that every year, 70 - 80,000 young men and women will enter the labor market, and about 50 - 55,000 people (which is quite a large amount for Armenia), will need a job, thus contributing to the labor market disparities<sup>19</sup>.

Regretfully, today employment does not guarantee a livelihood. The average nominal monthly wage in the public sector for January - September 2000 amounted to 17,996 AMD (approx. US\$ 33), and 25,710 AMD (approx. US\$ 47) in the private sector. The wage size is in no way related to the minimum consumer basket price that, according to different expert assessments, amounts to an AMD equivalent of US\$ 60 - 65. Of the employed in Armenia, 17% are considered extremely poor while the actual minimum consumer basket price, i.e. the absolute poverty line, has been estimated at AMD 11,735 (approx. US\$ 21<sup>20</sup>). In fact, the wage in Armenia

does not fulfill its reproductive and stimulating functions, and neither does it reflect the new working relations within organizations, thus contributing to the aggravation of social tension.

While until recently the employment policy of Armenia could be characterized as extremely passive, since 1999 it began to display some features characteristic of a proactive policy: the employment strategy component of the 1999 - 2001 social sector development program prioritizes the promotion of economic activity and the creation of a corresponding favorable environment. At the same time, activities envisaged by the program have been implemented inefficiently or have not been implemented at all. Thus, while one of the key components of the proactive employment promotion strategy - fostering entrepreneurial activity and promotion of self-employment - envisaged provision of financial support to 300 unemployed, such support totaling 4.2 million AMD (approx. US \$8.000) was provided to only 10 unemployed and resulted in the creation of 23 new jobs.

<sup>14</sup> Social Panorama and Poverty in Armenia (National Statistical Service), Yerevan 2001

<sup>15</sup> Information provided in the framework of regularly conducted surveys of 9000 enterprises, RA NSS, 2000

<sup>16</sup> According to the Law on Employment, unemployed are considered citizens of 16 and above years of age who do not have a job, have registered in the employment centers for the purpose of finding a job and have at least 1 year of work experience.

<sup>17</sup> According to a standard definition of unemployment proposed by ILO, unemployed are considered all individuals who have not had a job, have looked for a job, and are ready to take a job immediately.

<sup>18</sup> Annual report on the Social Economic Situation in Armenia, National Statistical Service, 2000

Subsequently, due to the funding shortage and, ineffective implementation of the grant support programs, the process was halted as of April 2001. Components on training and creation of a rehabilitation center for the disabled have not been implemented either. Armenia allocates rather small amounts for labor market promotion (0.03% of the GDP). In 1999, only 5.1% of the total allocation for the regulation of the labor market was directed towards dynamic implementation of active policy for employment promotion activities, while 93% was used for allowance payment.

The project on training and retraining of the unemployed implemented by the REA cannot be called a success either. In 1998, the REA trained 348 unemployed, in 1999 - 441 unemployed. In 2000, of the planned 933 only 612 were trained, a total of 70%. There is no information available on the duration of their new employment.

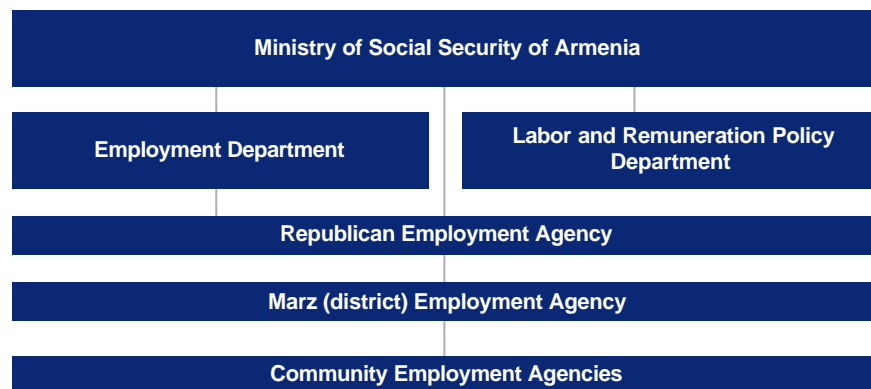
The number of beneficiaries enrolled has been limited and the training programs have not corresponded to the current requirements of the labor market. The level of expenditures for the training of the unemployed has also been inadequate (2.1%<sup>21</sup> of the total labor market related expenses in 1999).

Public works are an important element of the active labor market. To date 31,223 man/days of public works have been organized, mostly in the framework of the World Food Programme's "Food for Work" program. At the same time, the public works scheme is rather flexible and its broader application could help resolve quite a few financial and social problems.

State governance of the labor and employment sector in Armenia is carried out by the body authorized by the Government of Armenia, i.e. the Ministry of Social Security (Figure 3.7).

FIGURE 3.7 State Governance system of the employment and labor sector in Armenia

3.7



The REA is entrusted with employment regulation, policy regulation and ongoing management functions. There are 51 marz (district) agencies of which 10 have the status of marz centers. There are 10 community employment centers in Yerevan.

Until recently, the REA also had oversight on the implementation of labor legislation and employment rules. However, in view of the absence of corresponding institutional mechanisms and a legal framework regulating current market relations, the labor market oversight functions did not work. To improve management of the labor sector, Government decree No. 428 of 16.05.01 vested the Ministry of Social Security's Labor and Remuneration Policy Department with labor inspection duties. Nevertheless, the lack of appropriate mechanisms for the implementation of the oversight functions is likely to

result in the futility of structural change and a failure to resolve the issue of establishing a labor inspection system.

The legal framework for the labor and employment sector does not correspond to the actual economic situation and does not contribute to its improvement. It should be fundamentally revised and brought into conformity with the realities of the day.

The new draft Law on Employment and the draft Law on the Mandatory Unemployment Insurance, as well as a new Employment Code are currently designed. The Employment Code now in force neither corresponds to the requirements of the liberal economy, nor does it safeguard different types of ownership or provide for the rights and obligations of hired workers.

Among the issues of priority for regulation of the employment domain are:

- ✦ design of a clear and comprehensive strategy for the labor and employment sector;
- ✦ clarification of guidance and effectiveness criteria for the employment policy;
- ✦ dynamic amelioration of the corresponding legal framework;
- ✦ design of an employment policy at the regional and local levels, with due regard to the uneven economic development levels and specificities;
- ✦ improvement of the management system for the sector;
- ✦ adaptation of the remuneration levels to the new conditions;
- ✦ proliferation of the public works system;
- ✦ implementation of business proposal drafting and entrepreneurship training programs prior to the roll-out of business support projects;
- ✦ organization of training programs inside enterprises, creation of mechanisms for the latter's' active engagement.

### Social Partnership

Today, when the current Labor Code is no longer capable of regulating emerging labor relations, social partnership could be very timely and useful. As a specific tool in social-labor relations, it ensures the best possible equilibrium of interests of various social groups, primarily the employees and employers. The main actors of the social partnership system are:

- ✦ the state
- ✦ the trade unions
- ✦ the employers

The basis of the social partnership system in Armenia

was established back in 1993 by a presidential Decree "On the Procedure of Conclusion of Agreements between the Government of Armenia and the Confederation of Trade Unions in Relation to Remuneration, Pensions, Allowances, Income Adjustment, and Labor Protection". Though this initiative did not have any significant developments then, it served as a basis for the activities unfolding today: some structures, expected to coordinate activities with civil society organizations, are being established within state entities. For instance, in September 2000, the *Social League* - a cooperation between the MSS and non governmental and other organizations of the social sector was established. The Government decree of March 2001 brought together all three actors of the social partnership system onto the Executive Board of the Social Security Fund of Armenia. However, these entities still lack a real and practical substance, since it is perceived that under the current socio-economic conditions the parties have nothing to "share", the social dialogue is meaningless outside the context of economic development. For the social partnership system to acquire practical substance in order to evolve into a building block of a democratic society and socially-oriented market economy contributing to the economic development, strong employer and employee organizations and mechanisms putting into effect relevant legislature should be created. Meanwhile, protective functions should be carried out through legal means since the state cannot distance itself from the main responsibility of the employees' social protection, especially in those enterprises with no or very weak trade unions.

The new phase of economic reforms in Armenia requires elaboration and adoption of a coherent program of cooperation between all parties concerned, with the implementation mechanisms enforced at all levels of the social partnership, aimed at providing an axis for social equity policy. The initiatives mentioned above, coupled with others, could have significant impact on the emigration process that has become such a serious issue for Armenia.



# 3.4

## Migration as a Social Issue

Between 1988-1999 almost 3,250 million people were part of one or another kind of Armenia's external migration flows. The number of those who exited the country exceeds the number of those who entered the country in 1992-2000 by 644,000 persons<sup>22</sup>. At the same time, in the absence of an established entry-exit registration system at the borders of Armenia, the official statistics on migration cannot be considered sufficiently reliable. It is worth mentioning that only since May 2000, information is received on the cross border railway, and since June - on vehicular passenger transportation. Based on various surveys and estimates whereby a total of 760 - 780 thousand people left Armenia between 1991 - 1998<sup>23</sup> and an independent assessment giving a negative migration balance of 75 - 80 thousand 1999, plus, the 52.6 thousand who have left in the year 2000 (according to the RA NSS) it could be concluded that from 1991 - 2000 the total number of people who left Armenia totals approximately to 900 thousand.

Surveys indicate that about half of the single persons who

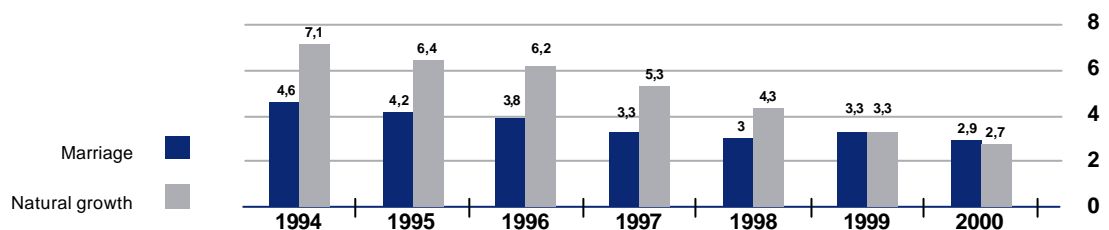
account for more than 55% of the emigrants do not rule out the possibility that they would never return. Three-quarters of the total number of emigrants have moved to the FSU countries, of which 80 - 85% settled in the Russian Federation. Nearly half of the remaining quarter emigrated to Europe and about 40% moved to the U.S.

Most of the emigrants are men (more than 60%) of active working and reproductive age (20-44 years). There is a low ratio of children and especially of the elderly, and the education level is considerably higher than the average for the country<sup>24</sup>.

The unprecedented migration levels of the last decade have had a negative impact on the country's demographics and can be counted among the key factors responsible for more than a two-fold decrease in the marriage and natural growth rates (Figure 3.8). Migration also has jeopardized family relations by causing long separations among married couples and family units, impeding the upbringing of children, and worsening the relations between the sexes and generations.

FIGURE Marriage and natural growth indexes per 1,000 persons

3.8



Since the number of emigrating Armenian citizens is considerable, state protection of their legitimate rights and interests acquires a special importance. The growth of uncontrolled labor migration flows, in spite of any negative impact, can be seen as a rather positive factor in the mitigation of the country's unemployment. However, this small positive aspect quickly evolves into a substantial negative one in a sense that this segment of the population prompts a new wave of emigration.

In the absence of corresponding interstate agreements, the protection of the rights of labor migrants becomes an issue. Due to the overwhelming lack of legal status, they are often subjected to violations of agreements with

organizers of their transportation and employers in the countries of destination, including exploitation, violence, forced labor and other violations (Box 3.2.).

During the last years, migration flows of the Armenian population reached levels that visibly affected the course of the country's economic development, its social and demographic situation, morale and consequently, national security. Until recently, in spite of the growing migration rates, a national policy on migration was nonexistent. Only in November 2000 the Government adopted the concept on the state regulation of migration, which highlights the priorities of the migration policy and delineates the means for addressing these priorities.

## Trafficking and Smuggling in Persons

3.  
BOX

There are similarities and differences between trafficking and **alien smuggling**. The latter is limited to the illegal facilitation of border crossing. The UN defines **Trafficking in Persons** as the recruitment, transportation, transfer, harboring or receipt of persons, by means of threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payment or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation includes, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labor or services, slavery or practices similar to slavery, servitude or the removal of organs. Thus, the combined components that define trafficking are: 1) Migration; 2) Intermediaries; 3) Victims.

The IOM study, conducted in partnership with OSCE and UNICEF and in cooperation with the Armenian government, and primarily funded by the Netherlands, classified as trafficked persons those who are forced or tricked into being trafficked and those who choose to migrate, but are then subjected to exploitation and abuse (given the difference between them). Preliminary results of the research show there is trafficking of women and children from Armenia. Survey results of 59 returnees reveal that 49% were subjected to sex work. Among those, 19% expected this when they went abroad for paid sex work, while for 31% this was unexpected. A further 25% were subject to other kinds of abuse, such as unpaid work, restricted movement, violence and forced sexual relations. Twenty five percent of those surveyed were not victims of trafficking. Sixty five percent of those engaged or trafficked in the sex trade in the survey are under the age of 30, including two minors. Trafficked women from Armenia are mainly directed to the United Arab Emirates and Turkey. Apart from push factors, and the demand for such services in the destination countries, the pull factors, trafficking results from the actions of local recruiters and pimps or employers abroad in search of profits in league with pliant and poorly paid officials willing to turn a blind eye or ready to falsify travel documents in exchange for money.

The study proposes recommendations for the prevention and reduction of trafficking in women and children from Armenia which fall in five main areas: awareness raising, prosecution of traffickers, protection and assistance to victims, further research on selected topics and economic development.

Regarding irregular migrants, preliminary results from IOM research in the same study indicate that smuggling is more prevalent than trafficking. Germany is by far the main destination country, followed by Greece, Belgium, Netherlands and Switzerland. A majority of respondents so far have said that they applied for asylum and were rejected as asylum seekers. In over 80% of cases the trip was organized by travel agencies or middlemen. In the same study, a survey of 19 travel agencies and tour operators found that many of them offer to make travel, visa and employment arrangements for prospective migrants to Western European countries on the payment of high fees. In 2000, 532 Armenians were provided return travel assistance from Western and Central European countries by IOM. Fifty eight percent were from Germany, twenty percent from Belgium and ten percent from the Netherlands. In 2000 according to provisional data compiled by UNHCR there were 6,590 asylum applicants in Europe from Armenia, the highest among all CIS countries except Russian Federation. Belgium, Germany and the Netherlands were the main host countries.

**International Organization for Migration, Armenia Office**

# 3.5

## Education

Education in Armenia traditionally has been valued and cherished, with a developed system of education and training, and qualified teaching staff. It should

be noted that, although the system has not suffered irreversible losses, nevertheless it has encountered very serious problems during these ten years.

TABLE Main characteristics of the RA educational system<sup>25</sup>

### 3.4

N	Characteristics of the educational system	1991	2000	Change (%)
1.	Preschool institutions	1283	844*	-34.2
	Enrolled children	143900	53200	-63.0
2.	Secondary schools	1326	1388	4.7
	Enrolled pupils	583797	560 000	-4
	Teachers	55500	59600	7.3
3.	Special general educational institutions	47	51	8.5
	Enrolled students	8500	11244	32.3
4	State and community extra-school institutions	224	161	-28.1
	Enrolled children	155000	55300	2.8 times
5.	Professional technical colleges	93	56	-39.8
	Enrolled students	33000	2121	15.5 times
6.	Middle professional institutions	68	77**	13.2
	Enrolled students	40600	28048	-31
7.	HEIs (state and private)	14	89	6.4 times
	Enrolled students	66100	62280	-5.8

*\*the drastic decrease in preschool indicators and the increase in tertiary education are ascribed to the considerable number of children born in RA in 80s and the drastic decline of the birth rate in the 90s*

*\*\* this includes both state and private institutions*

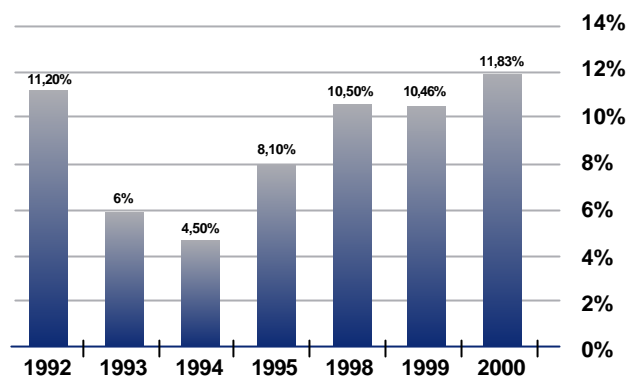
Since the beginning of the 90s the deterioration of the social and economic situation of the country has considerably affected the entire education system. State budget allocations were curtailed (Figure 3.9), the renovation

and maintenance of the educational institutions were drawn to a minimum, teachers' training courses were shut down, etc.

## Public Expenditure on Education 1992-2000

FIGURE

3.9



This situation further worsened due to the low living standards and insolvency of the majority of the population, thus narrowing access to education. As an engine driving human development and as a human right, education should be affordable to everyone. Along these lines, the RA government (the right to education of every citizen is stipulated in the RA Constitution) secures free of charge full secondary and 20% of tertiary education. In reality, at both levels of education significant supplementary payments from the family budget have become inevitable, which seriously limits the opportunities of insolvent groups to high quality education. Already at the initial level, some families are in a position to secure for their children educational services of higher quality, thus potentially making them more competitive for the future.

Higher education that is free of charge, in fact, is an illusion. Results of various surveys show that the overwhelming majority of those who have been enrolled in state-subsidized schools, have taken private classes and paid significant sums (on average from \$600 up to \$1500 each) to tutors.

The challenge of securing equal starting conditions for all at the beginning of life remains the most important prerequisite of social justice. However, the problem becomes even more complicated given the meager allocations from the state budget to the education sphere (about 2-3% from the GDP as compared with 7-9% in the 80s), while expenditures per student amount to about 40 USD. Both are rather low indicators as compared with other countries.

The current reforms are directed at the education sector's structure, content and management. First of all, management will be decentralized. The scope of community responsibilities will be enhanced through selected School Councils. The public at large, while having accepted that these approaches are in line with democratic principles, remains rather cautious about these innovations which should include optimizing the system structure, cutting back the over-extended network of schools and teachers (currently the teacher/student ratio is on average 1:10, and 1:20-1:25 in developed coun-

tries and 1:40-1:45 in developing countries), increasing per school and per student allocations as well as teachers' salaries. The results of a survey<sup>26</sup> recently conducted among 1,200 respondents who have children of school age, only 15% were for that reform, 27% had difficulty in answering the question and 58% were against optimization.

Criteria by which to judge the system's efficiency and usefulness, its ability to prepare personnel, staff, employers in conformity with market requirements should be the extent to which it helps the young people find their place in society by transferring to them adequate knowledge and skills, particularly those needed for professions that would secure a decent standard of living. The survey mentioned above points to a serious lack of coherence between the current system that prepares specialists and market demand. It is especially acute in the education of future specialists.

Thousands of young people with no particular form of training are entering the labor market every year. (The majority of secondary school graduates have limited opportunities for acquiring any profession within the state education system. This is also due to a scarcity of relevant specialized educational institutions (Table 3.4)). On the other hand, institutions of higher education (HEI) continue to "produce" thousands of specialists for which even in theory there is no market demand. For instance, in 2001, 1,154 teachers, 1,161 lawyers, and 503 artists graduated from various HEIs (in five years the numbers will be 1,771, 1,514, and 762 respectively). The majority of these young people have few realistic chances to work in these professions in the near future.

The tertiary education system's dependence on market demand for specialists will contribute to optimizing the number of HEIs, the list of professions taught, specializations, curricula and plans, and the proportion of theoretical and practical classes. As to the inadequacy of the knowledge, skills and the demands of the market, only 22-23% of the graduates have computer skills, 10% speak fluent English and only 12% assessed their chances as high for meeting market competition<sup>27</sup>.

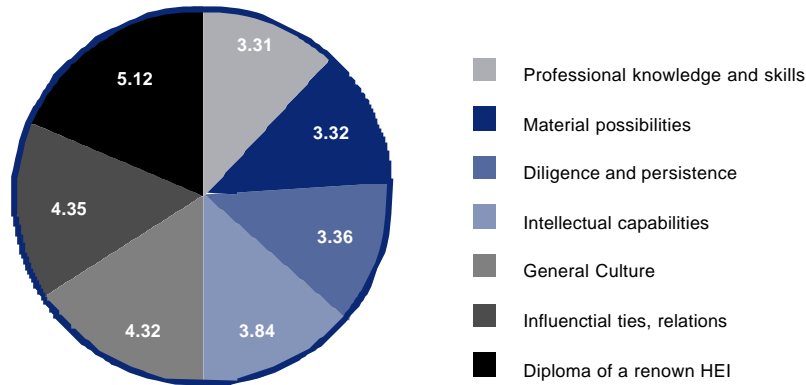
Reasons for this situation can be ascribed, to a great extent, to the inertia of the current educational system. Another factor is the average age of the pedagogical staff. In both secondary and tertiary educational institutions

most teachers are close to retirement. Finally, there is the *de facto* monopoly over the system for preparing specialists. As for the young generation, they seem to have rather realistic aspirations and perceptions (Figure 3.10).

The classification of prerequisites for attaining success in today's life (2,278 respondents, ages 13-33)

FIGURE

3.10



Both the public and the State now grasp the utmost importance of the educational sphere in light of poverty reduction and human development. A number of innovations carried out in the RA educational sphere

include the adoption by the National Assembly of a law on approving the state program on the development of RA education, aimed at improving the quality of education.

3.6

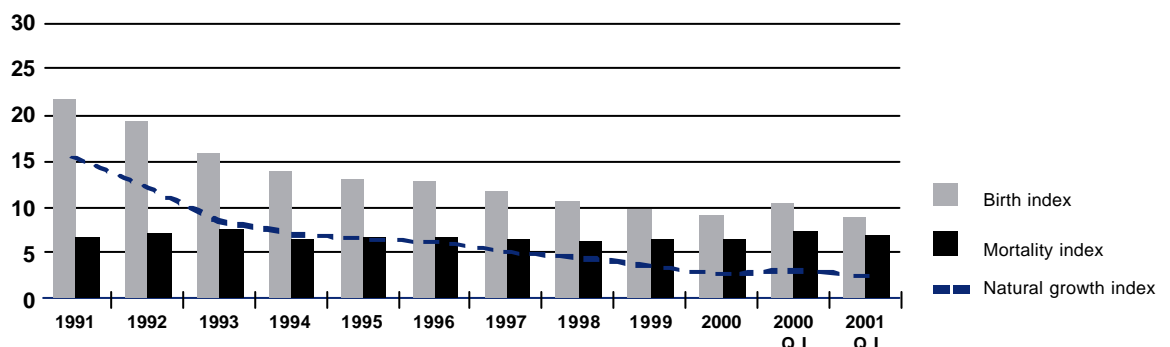
Health

The fundamental transformations in the health care system after independence were prompted by the need to create mechanisms for the sphere to survive in the emerging market economy. The ten-year period of

transition brought about deterioration of birth and natural growth rates, even at the background of relatively stabilized mortality rates (Figure 3.11).

FIGURE The dynamics of demographic indicators 1991-2001 (%)

3.11



During the past years, diseases that are considered to be provoked by difficult social conditions are on the rise. These include, among others, infectious diseases, childhood illnesses, those of the endocrine system, diseases of blood and blood creating organs. The number of cardiovascular cases and heart attacks has increased (53-54% of total mortality cases), and they are on the rise, especially among women. Cancer is highest in terms of disease incidence and second for mortality. The recurrence of tuberculosis, long forgotten in Armenia, has grown alarmingly (66.3%) during the past five years and is mainly found among young people. There is also a ten-fold increase in sexually transmitted diseases (STD). This indicator has doubled among adolescents.

Universal access to healthcare is jeopardized particularly for the most vulnerable population groups. The majority of medical services are considered free, but the "tradition" of demanding unofficial payments from patients has drastically decreased the number of people seeking medical help in spite of growing morbidity rates. Results of some surveys indicate that around 59 % of the surveyed sick people prefer self-treatment and diagnosis, hence artificially decreasing the number of patients.

Due to the economic crisis, the healthcare system works only at half of its capacity. In 2000, hospital bed occupancy amounted to 35% (in case of some regions it is 10-15%). Compared to 1990s, the referrals to polyclinics decreased by 45%, home calls decreased by 53% and the number of emergency ambulance calls decreased by 60%. All this is undoubtedly a result of high prices, insolvency of the population and a decline in the quality of health care rather than an indicator of improved health.

The state-guaranteed free medical service and healthcare is provided in a basic services package in the framework of targeted healthcare programs. Funding for public healthcare programs is envisaged for treatment of certain diseases, as well as for the treatment of all conditions within specific population groups. However, it is obvious that due to the country's current social conditions the list of the "vulnerable" groups does not include the actual number of people who genuinely need social support.

A new healthcare system funding model was adopted by the Government in 1997. The reforms introduced address the following 4 areas: organizational structure and management of the system, network structure, funding, and medical education.

The strategic objective of the healthcare sector management reform is improvement of the new comprehensive system by fundamentally restructuring state monopolies through privatization and de-nationalization. As of today, 18 health institutions have been privatized, of those - four hospitals, dentists' polyclinics, and one scientific-

research institute. Given the current difficult socioeconomic situation, the mentioned undertakings may be yet inexpedient for the large portions of the population.

The healthcare system's management reform has two directions: decentralization of some functions and centralization of others. Under the new decentralized arrangement, the principal body of the state administration in the sector (Ministry of Health) determines healthcare policy and establishes its priorities, issues and directions, and elaborates national healthcare standards and criteria. Another important initiative in decentralization is the creation of the State Health Agency, which keeps separate those bodies providing health care and service and that securing payment for them.

Analysis of the healthcare system's finances during the last years indicates that the volume of operations under the targeted public health programs exceeds the limits of projected funding from the state budget. Therefore, the introduction of paid medical service, with all its drawbacks and negative implications, was perceived as an inevitable stage in the process of financial reforms. To make this transformation less painful for the population, the policy on the development of the healthcare system has envisioned a variety of health care funding, through the introduction of the systems of state order, medical insurance and direct payment. A system of payments in the form of a global budget for hospital services was introduced, effective 1 June 2000. It aims to ensure manageability of costs and to introduce the utmost clarity in terms of the state's obligations vis-a-vis healthcare assistance and services.

Reforms are ongoing in the medical training system too. Given the "surplus" of doctors and nurses that accumulated previously, the need to prepare specialists in conformance with market demands takes priority. As of today, students admitted to the State Medical Institute number 300 instead of the former 1,400. Basic education for nurses is now three years, instead of the former two. Professional educational programs have been enhanced. Post graduate specialization is now four years. Along with regulating the process, educational reforms address quality issues as well - starting in 1996, doctors, nurses and pharmacists are required to renew their licenses every five years.

The radical changes in the healthcare system undertaken with the assistance of the World Bank aim to develop the preventive health system, increase the accessibility of quality medical services, and introduce the concept of the family doctor. The purpose of the latter is to prepare multi-profile family doctors, general practitioners that have the right to carry out primary health assistance, which is expected to replace the existing ambulatory-polyclinic system over the coming 15 years.



# 3.7

## Culture: Traditions and Opportunities

Independent Armenia has inherited ancient cultural traditions and an impressive experience of public administration, as well as cultural achievements of universal value, a powerful network of institutions for the protection, development, education, creation, and awareness building of cultural heritage, and favorable conditions and opportunities for the development of the cultural industry. Independence, the will to establish a democracy, and liberalization of the political, ideological and economic domains held the promise of new opportunities and potential for cultural development. It seemed that the liberation from censorship, constraints of the single-party indoctrination, command administrative management and total planning would manifest a new cultural renaissance. Unfortunately, these hopes have not materialized.

The years 1991 - 1995 (the first phase of the last decade) were marked by the energy and economic crisis. These factors were coupled with confusion among cultural policy makers who were not ready to face the emergency situation, new relations and the rules of the game.

The former situation of the prevalence of ideology in culture was replaced with with a total lack of any doctrine. The independence and the change of the political regime took place under slogans calling for shedding communist ideology and the creation and further proliferation of a new national doctrine. However, the strategy of the new authorities remains confined to the first issue. Perhaps, it had to do with a still prevalent faulty belief that, under conditions of severe economic and social crisis, dedicating efforts and resources to cultural development is a pointless and inappropriate luxury.

During this period the main emphasis was on the preservation of cultural institutions at any cost. Such an approach was typical within both the highest and the lowest levels of the cultural administration. Scarce financial resources were used to pay salaries and address the primary needs of the employees of culture institutions. These salaries were (and still are) too miniscule to provide an adequate livelihood for the employees. Nevertheless, they have not left their jobs, and the institutions continue functioning to the extent possible. At the same time, in spite of the new approaches necessitated by the fundamental restructuring of the system, the management and methodologies of culture administration remained unchanged.

A new tendency of reaching out to the international arena and establishing direct contacts with foreign countries has been notable due to the unprecedented opportunities that emerged after the collapse of the USSR. However, relations that were established were not always long term and did not enhance culture. Quite often they were limited to ad-hoc guest performances that absorbed huge and often unjustified financial resources. This "show off" tendency, initially followed by the elite, gradually found its way to the level of culture organizations.

The period after 1995 has been characterized by an apparent and completely natural (the energy crisis was over) animation of cultural life, as compared with the previous phase. Management of the sector, however, has shown apparent signs of crisis: passiveness, inertia, deterioration of quality and professional standards. The priorities, the management system, and the funding modalities continued to remain unchanged. At the same time, the modus operandi of cultural workers shifted considerably. Expectations that the public funding would fully take care of the needs gave way to independent initiatives, self-reliance, and intentions to find new sources of support.

An assessment of the last decade's cultural development reveals that losses have been striking due to a diversity of reasons. Of primary significance are: the drastic drop in the volumes of printing, the cinematography crisis, and the loss of dozens of libraries, culture clubs, museums, movie theatres, ensembles and artistic groups. New groups have emerged, however their number was tenfold less than those dissolved, while some of the new groups had a very short life or appeared in crisis. However, the most dramatic sacrifice has been made in the area of cultural education and propaganda of cultural values. Globalization's threat of widening cheap cultural values and egalitarianism has encountered almost no resistance. The current state of aesthetic education in secondary schools, the dire straits of the art schools, the shrinking volume of production of educational programs and publications, and the library stock depletion demonstrate that shaping the young generation's aesthetic tastes is endangered. Such a situation jeopardizes further cultural development and poses the risk of many more serious problems in the future.

# 3.8

## Instruments of Cultural Policy

The elaboration of a cultural development agenda was initiated back in 1995 and completed only in October 2000. According to the basic principles of this agenda, the main objective of the state policy on cultural development is the preservation of the cultural heritage for future generations, support of artistic and creative activity, as well as promotion of the reproduction and dissemination of cultural values. In order to attain this fully acceptable goal, the state has taken the path of democratization of the management system, liberaliza-

tion of cultural activity, priority given to the cultural values of global significance, and decentralization of culture institutions.

During the last decade, some steps have been taken towards accession to international instruments in the domain of culture and the formation of a national legal framework (Box 3.3), but the legal instruments are not sufficiently enforced and some areas are completely left out of the legal domain.

### Legal framework In the Domain of Culture

Armenia has joined several international conventions: on Protection of Cultural Values in the Event of Armed Conflicts (1993), on the Preservation of Global Cultural and Natural Heritage (1993), on Abolition and Prevention of Illicit Import and Export of Cultural Values and Transfer of Title Rights (1993), on Cooperation in the Domains of Culture, Education, Science and Information in the framework of BSEC (1993), a Cooperation Agreement on Protection of Copyright and Neighboring Rights (1995), the European Cultural Convention (1997), Berne Convention on the Protection of Literary and Artistic Works (2000). Several laws have been adopted to regulate the export and import of cultural values (*On import and export of cultural values*, 1994), their dissemination (*On advertising*, 1996), protection of archives (*On national archives of Armenia*, 1997), and protection of monuments (*On protection and use of stationary historical and cultural monuments and historical sites*, 1998), copyright (*On copyright and related rights*, 1996, a new law adopted in 1999). The issues of copyright and the protection and transfer of cultural values are also regulated by three codes: Civil (article 284, 1100-1143), Criminal (article 73, 210/1, 228, 243, 140) and Customs (articles 21, 26 - 29).

A framework law is in the process of adoption: *On the principles of cultural legislature* to be followed by about eight laws regulating the spheres of cinematography, theatrical art, library, museums and publishing.

**Anahit Harutunyan**  
Chairperson of Spiritual Armenia

3.  
BOX

While there has been some progress in the area of preservation of cultural values, a huge domain of libraries and museums has been left out of the legal framework. The domains of theater and cinematography are not legislatively regulated either in terms of regulations and conditions of the public support and funding.

The law on VAT urgently requires amendment. According to the present law, VAT exemption covers only children's, education, and science institutions, and only their sales revenue. This situation considerably hinders the development of publishing. The lack of a law on Mandatory Copies significantly complicates what are already considerable difficulties with the replenishment of library stock and publications inventory.

The lack of financial resources hinders both the planning of cultural development and even the performance of the sector's basic functions. Theatre, cinematography and publishing operate under the state system, but the volume of state orders is extremely limited. Besides, the procedure of selection of art works under this system is rather unclear: it is unknown according to what criteria state officials of the respective departments select works of art offered by creative groups for public funding.

So far, the expectations for culture sponsorship have not materialized. This may be considered a sign of deterioration of cultural tradition (it is an indisputable fact that Armenian culture for centuries was supported by patrons and sponsors). Several culture funds registered in the country provide substantial support, but these resources are too scarce to affect the situation on the whole. Undoubtedly the large shadow economy as well as a lack of tax benefits for patrons and sponsors have a negative impact on the development of cultural spheres. Legislative reform in this area (a draft law on sponsorship will soon be presented for discussion in the National Assembly) would be an important step forward. However, fundamental improvement of the situation may be expected only with the creation of a national fund for cultural development.

One of the most vulnerable points of the new cultural policy is the management system, and it is too early to

speak about the democratization of the sector, as suggested in the Cultural Development Agenda. The science and art councils and boards functioning within culture institutions, formed at the discretion of managers, are just nominal entities. The former inter-agency boards that somehow created an administrative interface, have been rendered non-operational. A scientific council (composed of experts and professionals) mentioned in the statutes of the Ministry of Culture, Youth and Sport Issues has never been created.

In this context, the creation of a consortium of nine large libraries in early 2001, which would contribute to resolving jointly problems related to libraries, is very commendable.

Nothing has changed essentially in the structure of the Ministry of Culture (despite new attempts at merging or creating new departments) and in its relations with its subsidiaries. The distribution of functions has been *de facto* made in the framework of the former administrative system. The personnel crisis characteristic of all branches of the executive has been particularly painful in this sector. The higher echelons alienated themselves from the professional issues of the sector while maintaining all the oversight and personnel management leverage.

The lack of the legal and economic instruments causes serious problems with decentralization of the system (in many communities, due to the financial constraints and preferences of the leadership, cultural entities are dissolved). Instead of the design of new management models, the Ministry exerts efforts for reinstatement of its authority (for example, in 1997 the management of regional libraries was fully transferred under the jurisdiction of the Ministry), which cannot be considered a long-term approach.

Information and communication technologies are practically absent from the culture management system. The fact that until now there has been no survey on the cultural needs of the population and opinions of culture workers, speaks for itself. It is hardly possible that the priorities of the Cultural Development Agenda could ever be addressed without adequate information support and an in-depth situation analysis.



Armenia's  
**Perspectives**  

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for Long-Term  
Development

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Current developments both at the global and local levels dictate the need for a strategy of coordinated and comprehensive actions, with long term objectives and set priorities. Presently, taking into consideration Armenia's potential for development and comparative advantages, prospects are quite good for advanced technologies, including information technologies, research and development and other services. Information technology products, e-commerce and other services based on the flow of information data are of particular importance given current and future scenarios of Armenia's development. Today's partial trade blockade and its associated transportation problems could potentially evolve into either a complete or semi-blockade, or could be resolved, leaving no blockade. Thus, these are spheres where Armenia has the potential for development and has a

comparative advantage, since the flow of information data to and from the country does not depend on its transportation system. The production of small volume/high value IT products and other services related to the computer industry is progressing rapidly. These products and services are considered to be export niches and the most promising sectors for Armenia's development.

The basic comparative advantages of the IT sector could be further widened in a scenario when trade blockade is lifted and the associated transportation problems resolved. Competitive advantages based on those comparative advantages could be developed and accelerated, with the goal of attaining sustainable levels of engagement in the international IT market.

# 4.1

## Information and communication technologies (ICT) Prerequisites for development

Armenia was one of the most technologically advanced republics of the former USSR, with a special focus on developing the Information and Communication Technologies (ICT) industry. The sector involved close to 40 R&D centers. Of these, the largest was Yerevan R&D Institute of Mathematical Machines. This Institute employed over 10,000 specialists and produced both hardware - mainframes and computers (mostly for Soviet military industry needs) and corresponding software (operating systems, applications). From 1960 to date, the State and Engineering Universities of Yerevan trained approximately 13,300 specialists in the ICT sector, with 5,000 currently working in the field. Among the graduates after 1975, 7,000 are unemployed or do not work in their profession (out of which 3,100 - 3,600 are programmers, system administrators and IT instructors as their qualifications do not correspond to market requirements). At the same time, ICT enterprises currently need about 1,800 qualified professionals. Currently, the number of applicants to ICT related faculties of institutions of higher learning has increased by a factor of three<sup>1</sup>.

The economic instability of the last decade had a negative impact on the domestic software industry, albeit to a lesser degree than other export led enterprises. However, it was relatively quick to regain its position in the market. Since 1997 the ICT industry, with its three sub-sectors: 1) hardware, 2) software, and 3) media for collection, storage, processing, transmission, and presentation of information, has been advancing at an accelerated pace. Software exports alone amounted to an estimated USD 20 million<sup>2</sup>.

According to independent expert assessments (ITC<sup>3</sup>, UNDP/UNIDO<sup>4</sup>, UNDP/UNIDO<sup>5</sup>, USAID<sup>6</sup>, USAID<sup>7</sup>, WB<sup>8</sup>), Armenia has considerable potential for ensuring and enhancing its tangible presence in the global ICT sector, especially in software. This is due to an education and cultural system that facilitates the creation of a comparatively large army of qualified ICT professionals. There are 222 enterprises operating in the ICT sector in Armenia (Box 4.1) of which 87% are private<sup>9</sup>. All ICT sub-sectors enjoy sustainable growth, with the exception of the "IT Hardware" sub-sector (Figure 4.1).

<sup>1</sup> V. Ter-Nikoghosyan, A. Asryan "Armenia: The State of IT Industry". Findings of the survey of IT Enterprises, conducted by the Union of IT Enterprises, May 2001, UITE.

<sup>2</sup> Armenia Growth Challenges and Potential Opportunities, World Bank, 2001.

<sup>3</sup> Global Technology Market. Information Technologies. Country Profile - Export Potential. ARMENIA: 2000, ITC/UNCTAD/WTO, Geneva 2000/

<sup>4</sup> Assessment of Rationale for the Establishment of an IT Park in Armenia, prepared by Dr. Victor Brjabin, UNDP/UNIDO Expert, January 2000.

<sup>5</sup> Information Technology and Electronic Commerce Park (ITEC-Park) Establishment, NDP/UNIDO, Project Document, 2000.

<sup>6</sup> Republic of Armenia: ICT Assessment, 15 July 2000 Version, SETA, USAID

<sup>7</sup> Armenia IT Master Strategy Inception Report, March, 2001, USAID

<sup>8</sup> World Bank IT Enterprise Incubator, WB, 2001



4.1  
BOX

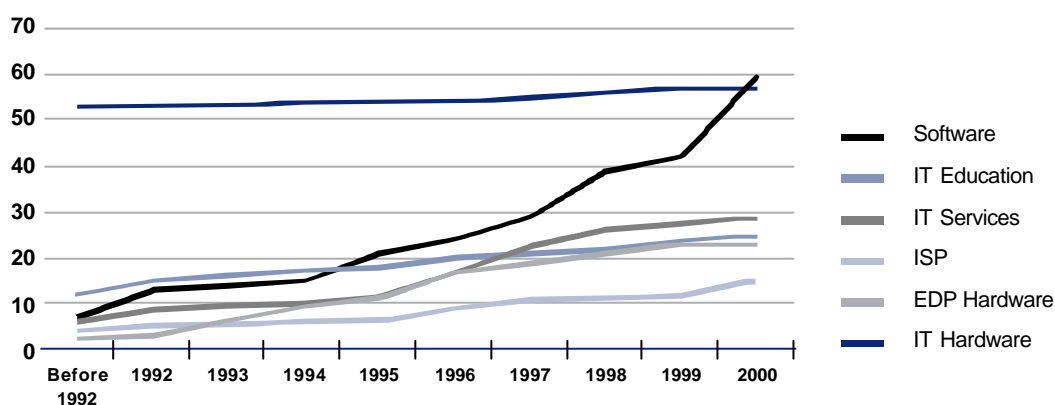
## ICT industry sub-sectors

- ✦ Software - 60 companies developing operating systems, applications, and systems or applications utilities and tools. Twenty-eight of these companies received foreign investment, a majority from the USA.
- ✦ Internet Service Providers - 19 companies providing both public and proprietary access to the Internet.
- ✦ IT Services - 35 companies, includes a large number of such specialties as hardware maintenance, software support, network services, data center services, professional services and processing services.
- ✦ EDP (Electronic Data Processing) Hardware - 29 companies manufacturing/assembling/selling computers, and any connecting peripherals, both internal and external, and computer accessories.
- ✦ IT Education - 24 institutions specialized in the development and delivery of computer programming and user trainings in all aspects of hardware and software components mentioned above.
- ✦ IT Hardware - 55 companies involved in the manufacturing and/or sale of closely related IT components such as telecommunications and office reproduction equipment.

## Union of Information Technology Enterprises

FIGURE Trends of ICT enterprise development (consolidated)

## 4.1



## 4.1.1 Regulatory framework for ICT development

In support of Information Technology development, the Government of the Republic of Armenia, by a decree on 28 December 2000, declared the IT industry "...as one of the priorities for Armenia's economic development". This decree should result in the improvement and reforms of the relevant regulatory framework. The Concept of ITI development was endorsed by the Government on 4 April 2001, while the Program is currently under preparation.

In spite of the fact that, compared to other industry sectors, the ITI encounters fewer legal and administrative obstacles, such obstacles still exist. The ITI Development Program will be designed to address these difficulties.

The obstacles embedded in the provisions of the Copyright Law, and the absence of a law on electronic commerce and electronic signature (drafts are currently under discussion), hinder the development of this eco-

nomie sector in Armenia. Moreover, according to a USAID report<sup>10</sup>, there are at present several constraints that limit Armenia's broader leveraging of ICTs in support of economic development. These are primarily in the areas of Internet access and legal restraints that do not support exploiting the Internet for advancement in the area of e-Commerce.

In particular, the ArmenTel company's monopoly will block communication infrastructure development in the country for another 13 years. In spite of the fact that the Ministry of Transport and Communications has a legally stipulated mandate for regulating the telecommunications sector, ArmenTel has in fact appropriated the sector and gained an exclusive status in the domestic market. Capitalizing on this fact, ArmenTel so far has not contributed to Internet's development in Armenia. As some experts contend, due to its contract with the RA government, ArmenTel does not have any incentives to do so. In the meantime, the State has declared IT a priority for the economy's development and Internet is the basis for that development.

In an effort to resolve this problem, the government is taking steps to address the issue via two scenarios: re-considering the monopoly status for Internet services and creating additional incentives for ArmenTel to improve the sector.

### 4.1.2 ICTI development potential

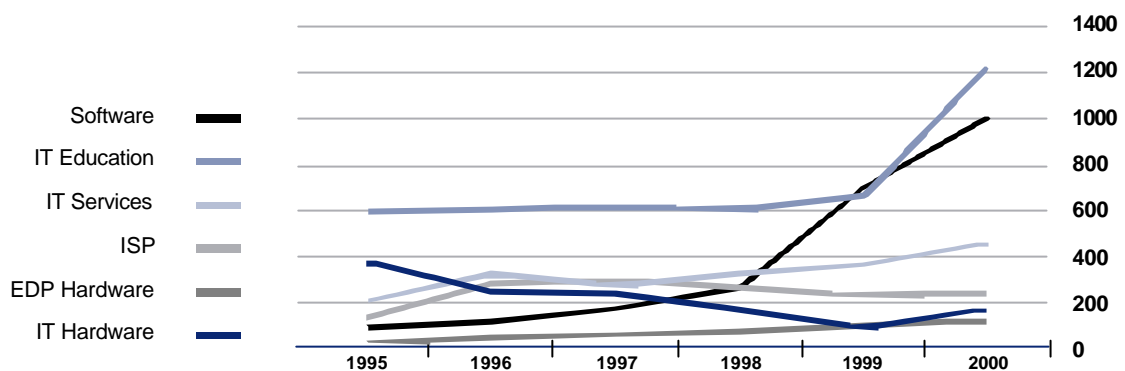
The ICT industry (ICTI) in Armenia enjoys sustainable

growth, and creates new workplaces (Figure 4.2) with wages exceeding the country's average by a factor of ten. It has considerable potential in terms of long-term sustainable economic growth of the country and hence may have a considerable impact on other economic sectors. The ICTI and its infrastructure are crucially important to any country's successful performance in the global market.

Dynamics of personnel by ICT sub-sectors 1995 - 2000  
(for 100 out of a total of 222 enterprises)

FIGURE

4.2



Essentially, the role of the ICTI in Armenia's economic development is three-fold:

- ✦ first, it is a promising industry sector
- ✦ second, it provides the required technological base for the development of other sectors
- ✦ thirdly, its infrastructure attracts foreign investment

The fourth, anticipated impact is also worth mentioning: the development of the ICTI contributes to a transformation from an Industrial Economy to an Information Economy. Already today, the ICT sector appears to have resulted in slowing down the notoriously famous "brain drain" (Box 4.2).

The State seems to have come to the realization that lagging behind in the IT sector has expensive consequences. Without access to international scientific networks, the R&D for new products will not be effective. Local products will fail in competitiveness in the interna-

tional market, manufacturers could lose their modest market shares, because of very simple reasons being unable to access the global trade networks and compete in equal conditions.

The ICT sector is extremely flexible and can quickly change its strategy, policy, and range of produced goods thus facilitating the transition of other industry sectors in Armenia.

The ICT sector has several essential advantages:

- ✦ it uses the available high quality human capital,
- ✦ it creates jobs with minimum investment capital,
- ✦ it exports its produce quickly and easily on any scale,
- ✦ it is extremely attractive for foreign investment,
- ✦ it supports Armenia's integration and competitiveness in the world markets.

### Brain drain from Armenia and its specifics<sup>11</sup>

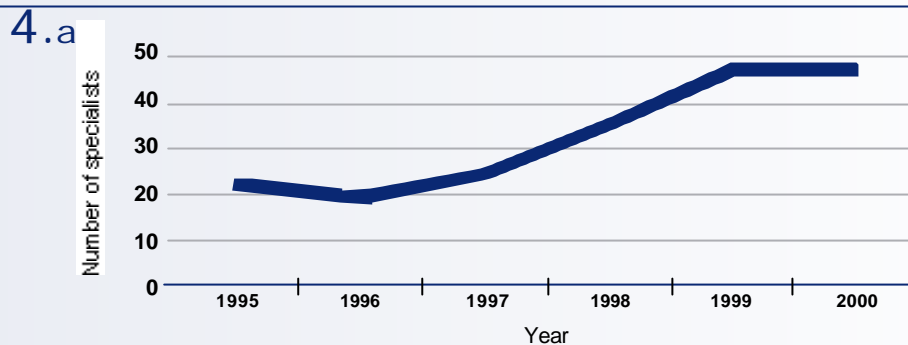
Armenia's IT brain drain started in the early 1990s, as the country's difficulties began to emerge. According to former employers of those who left the country, in addition to common reasons for leaving could be summed up:

- no alternative military service (37% of potential conscripts from IT related spheres have left the country)
- "job hunting" - seeking high salaries abroad
- Internet's low quality and high price in Armenia (constrains work with a contractor stationed abroad).

4.  
BOX

According to IT company managers, the number and professional composition of those who left the country are as follows: up to 1995 around 500-1,000 professionals have left, from 1995-2000 (mainly computer programmers), around 200 professionals, out of which 70% were IT instructors, only 16% are programmers and 8% system analysts. Those who migrated comprise up to 20% of the IT workforce engaged in the economy.

FIGURE The dynamics of IT specialists' emigration



An increase in job vacancies in IT companies with local and foreign investment, a wider range of work opportunities/options, and job offers on a contractual basis from abroad have reduced the emigration of computer programmers. The majority currently prefer to live and work in Armenia, since remuneration has significantly increased. If calculated in Purchase Power Parity (PPP), the difference is not significant.

Out of those who left Armenia, 68% maintain contacts with their former companies, 24% act as mediators in finding new markets, enhancing the assortment of exports and acquisition of contracts. Along with the dismal fact of migration, we can point to a positive trend, manifested in the contribution of the young IT Diaspora in the development of Armenia's economy.

#### Union of Information Technology Enterprises

Recognition of the sector's priority and the programming now underway (with financial and technical support from all international organizations) may be considered the first promising steps the Government has taken toward the development of Armenia's ICT sector.

#### 4.1.3 The role of ICTI development in Armenia's integration in the global economy

The ICTI, and particularly the Internet development that serves as a basis for rapidly growing electronic business (e-business) and electronic commerce (e-commerce), will facilitate Armenia's integration into the global market. It will contribute to the restructuring and re-profiling of other sectors of the economy, rendering them more competitive. The development of the ICTI will also contribute to the strengthening of Armenia's economic potential and its integration into the global market with all the equal opportunities and unlimited choices that it offers.

The Internet has numerous applications, but e-commerce truly is its "killer application". This application has a feedback: e-business stimulates Internet proliferation which, in its turn, opens new opportunities for business growth. E-business includes, but is not limited to, e-commerce which exploits opportunities afforded by the

Internet for trade in goods and services, as well as for mediation intermediary.

Data processing capacities are developing thanks to their use by small and medium enterprises, organizations and individuals. The Internet's explosive growth has necessitated the presence of business on the Web. Internet and its technologies have made electronic business the most effective and reliable type of business.

The world ICT manufacturing industry is expected to continue relocating to areas where it can operate cost effectively. While developed countries are likely to maintain their core competencies in high-technologies, developing and transition countries will find opportunities for attracting investments in outsourcing and skill-intensive sectors such as Research and Development (R&D), software applications and services, repair, maintenance, installation, commissioning and the production of components.

All of the developments mentioned above require program support. The as yet unmet demand for IT specialists in developed countries amounts to 1,5 million. According to estimates, this will grow to 5 million by 2008 since the ITI develops faster than the education system can prepare specialists. (The same situation, although on a smaller scale, prevails in Armenia).

Transition and developing countries with limited fixed infrastructures will be able to participate in cyberspace for the first time. Fast, mobile, anywhere-anytime Internet connections will be commonplace. The marginal hourly cost of Internet connections will approach zero. All forms of media will be digitized and converge on the Internet.

Momentum builds quickly and leads to explosive change. Armenia has a unique opportunity to catch the momentum and find its special places in this explosively growing unlimited market based on its educated, skilled, creative, innovative, flexible and productive labor-force.

E-commerce also creates unique opportunities to employ those traditional Armenian skills that have been

polished for centuries: business mediation and entrepreneurial drive.

The sector grows quickly and exerts pressure on the State to eliminate the obstacles preventing its development. The State, in turn, is beginning to respond to this pressure by clearly identifying its tasks:

- ✦ creation of a competitive environment in the sector of Internet services and endorsement of its development,
- ✦ elimination of administrative barriers,
- ✦ elimination of legal obstacles for the protection of intellectual property rights,
- ✦ implementation of reforms in IT education system.

## 4.2

### Globalization and integration

The large-scale political, economic and social reforms that took place in Armenia during the last decade were affected significantly by the global development processes.

At the beginning of the 90s, after the collapse of the Soviet Union, Armenia as other countries of the FSU, became directly involved in the globalization and integration processes. During the ten years of independence, Armenia became a member of a number of international and regional organizations, among which the United Nations, 1992; The Organization for Security and Cooperation in Europe, 1992; The Commonwealth of

Independence States, 1992; Black Sea Economic Cooperation, 1993; The Council of Europe, 2001. It has bilateral and multilateral agreements with a large number of countries. Armenia's active participation in global conferences and adherence to its commitments and Millennium Declaration Goals (Annex 4) is yet more evidence of its involvement at a global level. However, in spite of Armenia's active participation in this process, today the country must address a two-fold issue: identification of its agenda vis-a-vis globalization (Box 4.3) and determination of the degree of its involvement in globalization.

### 4.3 What is globalization?

BOX

Globalization as a phenomenon and as a process preceded its definition and consequently left room for individual interpretations of its meaning and significance.

Some believe that globalization is a **cultural** phenomenon and, inter alia, guides the global proliferation and intrusion of certain values. And while until this date the integration processes were attributed to the communist or capitalist public orders, globalization is identified with the will and interests of every single state.

Others see globalization as a **political** agenda, which first of all is a challenge to national identity and the rights of independent states.

Many view globalization as an **economic** phenomenon and describe it as a global market of goods, services, capital, ideas and technologies, as well as an intensified process of mutual connection and influence of the states, their institutions, national cultures and other attributes.

Globalization can be simultaneously viewed as a **social** and **historical** phenomena centered around the economic factors responsible for rapid economic growth not within a separate state, but between different countries.

Globalization as a historical trend is not new. However, at the present stage of development we deal with an exponentially increased scale, which in its turn requires a change in the attitude towards old values. Globalization is a global integration that was characteristic of the world in different periods of its history. The novelty here is just the effectiveness and the degree of such integration, and the number of the countries and the people who are willing or compelled to participate in these processes and undergo their influence.

**Aghavni Karakhanyan**

The assessment of the risks and advantages of globalization should be based on the premises that globalization is an objective reality to which countries should determine their attitude, place and course of action, and that its impact and consequences are individual for each state. Since globalization primarily involves a small group of dynamically developing countries and a large group of countries that in essence are left out of this process, the negative consequences of globalization for the latter are more obvious than the positive ones.

However, the unit of measurement of such impact both at the local and at the national and regional levels is the same: will globalization ultimately result in improved standards of living, better environment, social protection, and guaranteed political rights of the citizens, and will it protect cultural diversity and national identity? In this context, the challenge for Armenia is no exception.

The consequences of globalization for Armenia, as a "recipient country" lie primarily in the cultural and social-economic domains, since integration into the global market opens wide opportunities on the one hand, while causing controversies on the other hand. For Armenia, the threats of globalization are three-fold - its economic, cultural and political pillars are endangered. In the long term, Armenia might be transformed into an object of the modern version of the "metropolis-province" relationship,

lose its national identity and uniqueness, and find its nation state and sovereignty in jeopardy. On the basis of these possibly negative consequences, a perception has formed of the phenomenon as a threat. In many countries this has resulted in calls for fighting globalization.

The challenge for Armenia is to adapt to the globalized international community in the best possible way, taking maximum advantages of the opportunities it offers and at the same time mitigating its negative consequences.

- ⚡ The most effective way to counter the threat of cultural expansion and the possible loss of cultural diversity and identity is a system of "filters" that provides a selective approach to what globalization offers.
- ⚡ Protecting national culture implies, on the one hand, its further development and universalization of its values. On the other hand, it is the merger of national and universal values. Ultimately, cultures with ancient historical roots accept change with difficulty, contrary to modern states where foreign languages, music, literatures and cuisines proliferate. Moreover, ancient history and Christian traditions, coupled with Armenia's geographic location, are linked in facilitating the dialogue of civilizations and do not represent a source of confrontation.



Armenia is well positioned to use regional cooperation for reaping the benefits of globalization. It is obvious that regionalization is an important feature of the current stage of globalization: it is a unique localized globalization that implies even closer cooperation with the regional neighbors, their recognition as de facto and long-term partners in economic, social and cultural domains, as well as in terms of security and other considerations. Regional cooperation is particularly important in terms of protection of human rights, political rights and minority rights, as well as for advancement of all sectors of the economy. Armenia, as all other countries in the region, will only benefit from such cooperation.

In today's globalized world structure, the concept of security goes beyond its conventional borders. The open societies created by virtue of globalization acquire particular importance, and mutual dependence that requires consolidated action by the states both within the regions, and at the inter-regional and global scale. Globalization becomes a matter of political and economic necessity and feasibility, and the potential for regional cooperation makes it possible to ease and eliminate tension between neighbors, as well as to control the proliferation of weapons and security, and address environmental concerns (Box 4.4).

### Environmental issues in the global context

The comprehensive process of preparation for the Sustainable Development Summit taking place in 2002 is currently underway to assess the progress made by humanity during the last decade in the sustainable development context and the implementation of agreements reached at the 1992 Rio Summit for Environment and Sustainable Development, and to outline strategies for further development. Within the framework of the preparation process, the civil and research community of Armenia prepared a "Rio + 10" National Report that was endorsed at a closing national conference on 1 June 2001. The conclusions and recommendations of the Report are the following:

While Armenia currently implements several programs in various areas of sustainable development, the complex approach to the SD issues required by Agenda 21 is not in place. The country has not established a national committee on SD, and the national strategy for SD has not yet been designed. The most notable developments take place in the framework of projects on "Science and Education for Sustainable Development," "Framework Convention on Climate Change", and "Convention on Biodiversity Conservation." The implementation of the strategy and plan of action biodiversity conservation is considerably hindered by the country's harsh economic and social conditions whereby a miniscule section of the population lives on overexploiting the natural resources of the country.

While some local initiatives have a potential to contribute to addressing the sustainable development issues in Armenia, the development of the country in the transitional period took place in a direction contrary to the principles of sustainable development resulting in the depletion of the economic potential and decreased access to social services, alienation of the society in view of polarization of income, unemployment, and overloading of environmental systems.

A review of the globalization impact on Armenia shows that quick implementation of standard programs on economic and market liberalization endorsed by the international financial institutions (with no regard to lack of preparedness and specifics of the country) have been disastrous for Armenia. The need to integrate into the global economy is obvious, but not at the expense of the loss of economic security, tremendous social costs, and the brain drain.

A proposal is made to establish the "public segment" of the National Committee on SD and together with the already established NGO segment proceed with the design of a national strategy that would ensure integration of economic, environmental and social priorities. The short-term and long-term programs of economic and social development should be harmonized with this underlying document.

The National Committee for SD should propose amendments to the transition process from the sustainable development point of view. Specifically, the role of the state in the process of reforms and globalization should be strengthened to mitigate the negative ramifications, most optimal adaptation to the realities of the process, the re-establishment of social cohesion, and preservation of the human capital through promotion of non-material production.

The following issues should become a matter of discussion at the regional and global levels: the impact of globalization on transition economies, disparities between the real progress of reforms and SD principles, as well as the need for an improved East-West cooperation for overcoming the "implementation crisis" of environmental programs.

**Karine Danielian**

*President of the Association for Sustainable Human Development,  
Chairperson of the NGO group of the National Committee for SD*



The Republic may strengthen its sovereignty and nation state by actively integrating into the globalization process. The involvement of the state is essential for managing globalization, to minimize the destructive impact of marginalization. Adherence to universal values, based on the protection of rights of its citizens and prevalence of democracy and rule of law will make the state stronger, which instead of combating globalization should use the latter for the creation of an economic, political and legislative atmosphere necessary to achieve freedom and prosperity for the people -the most valuable resource of any society.

#### 4.2.1 Economic globalization and Armenia: realities and opportunities

Armenia's achievements in the 21st century in the spheres of human development (HD) and sustainable, dynamic economic growth will highly depend on its ability to capture the opportunities offered by globalization and to be integrated effectively into the international economy. The effectiveness of a given country's integration into the international economy is conditioned by the degree to which it participates in the world labor division system. This, in turn, is determined by its comparative and competitive advantages and whether the country has the capacity to use them and develop new ones. All this is influenced by globalization processes, apart from policies pursued within the country.

Characterized by "shrinking space, shrinking time and disappearing borders," globalization has swung open the door to opportunities<sup>12</sup>, and can potentially open access for developing and transition countries to the global market of capital, goods, services, and technologies in which they can find their niche relatively quickly. Should such opportunities be grasped, these countries are also likely to reap the benefits of globalization, and secure quick and effective integration into the global economy (albeit to a lesser degree than developed countries). However, globalization may also increase considerably the risk of aggravating these countries' human development problems.

In order to mitigate the negative consequences of globalization and make the most of its advantages for the integration into the global economy, Armenian authorities should take into account several objective realities of the process. The most relevant of these are:

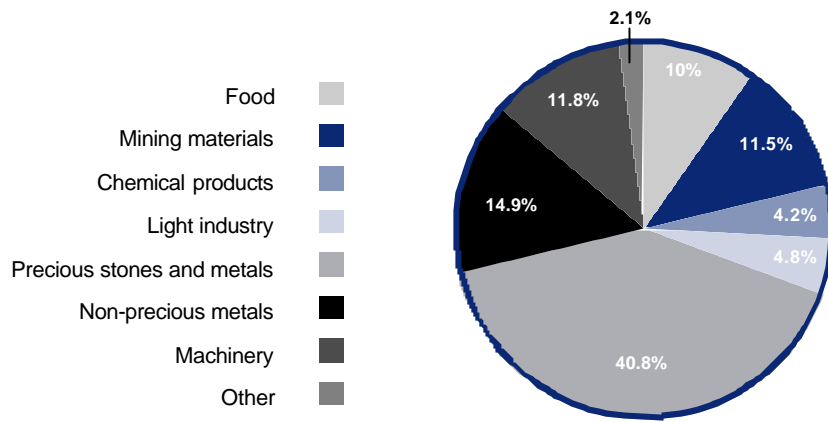
**First** (and most important), it is a fact that, as mentioned earlier, globalization is an objective phenomenon. Its further development and proliferation are unstoppable. It is preconditioned by the global nature of capital and is a consequence of the advancement of science and technology, particularly ICT, the internationalization of production and the liberalization of the economy.

**Second**, globalization means the unprecedented competition of goods, services, labor, capital and technologies on the international market. For Armenia, with its small domestic market, the primary means for taking advantage of globalization is to effectively integrate into the global economy by gradually increasing exports from the technologically advanced industry sectors. However, during the past ten years of transition, due to a variety of objective and subjective factors (including globalization itself) ensuring the creation of a highly competitive economic system proved difficult. Consequently, the volume of exports in goods and services, which is indicative of the degree of the country's integration into the global market, is still small (in 2000 it accounted for only 23% of the GDP, a very low level for a country with such a small domestic market). The system of exports appears ineffective as it comprises practically no high value-added science and technology commodities (Figure 4.3).

**Third**, the most active participants, the engines that drive globalization, and hence the greatest beneficiaries, are transnational corporations. Newly created companies should make considerable investments in the new technologies, training, marketing and other sectors in order to compete with them. Countries such as Armenia with small domestic markets have extremely limited opportunities for such investments. In order to accelerate the pace of integration into the global market, Armenia should attract as much investment from transnational corporations as possible. This is a reality of globalization. Meeting these requirements and effectively addressing them would enable the country to immediately benefit from globalization's positive consequences. The countries recognized for having successfully addressed the problems of transition (Poland, Hungary, Estonia, etc) are those that have been able to attract substantial foreign direct investment largely composed of investments by transnational corporations (Figure 4.4).

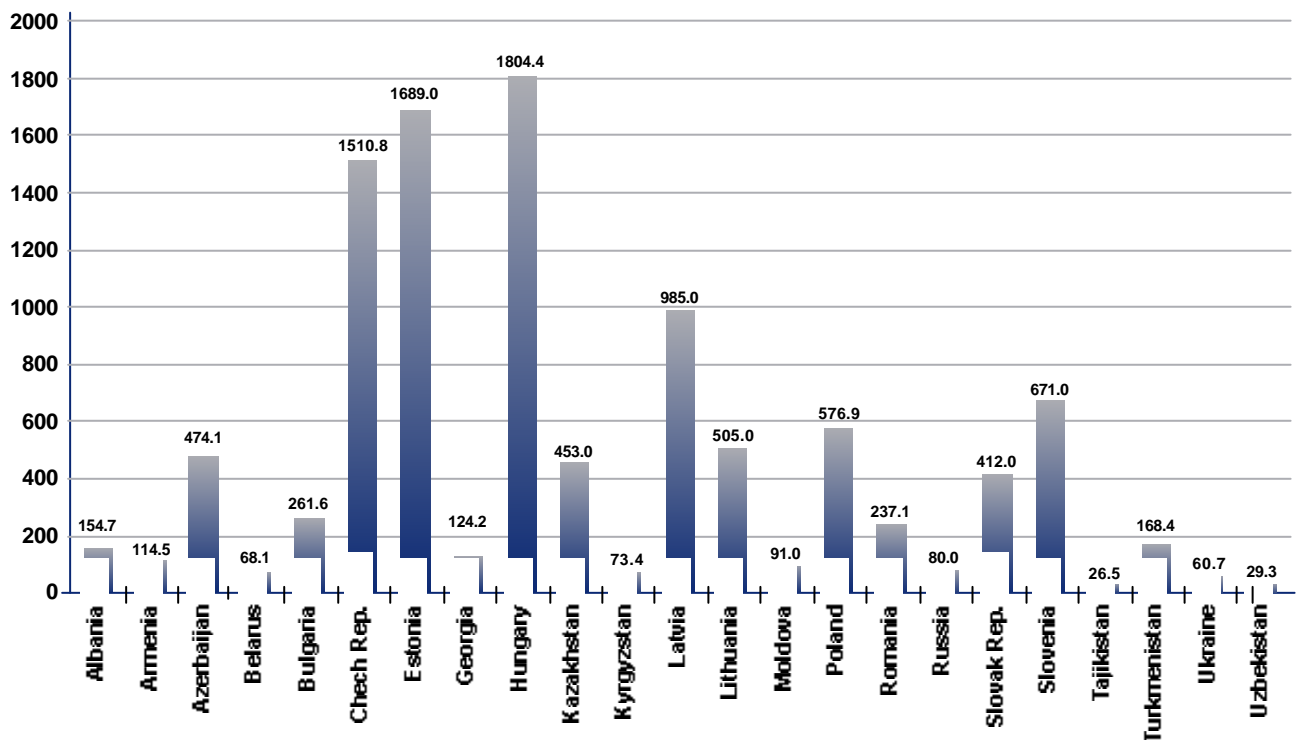
Composition of Armenia's export, 2000<sup>13</sup>

FIGURE 4.



Per capita FDI in transition countries during 1991 - 1999<sup>14</sup>

FIGURE 4.



At the same time, the economy's internationalization, increased interdependence and the uneven distribution of globalization's benefits between the developed and the developing countries raise issues that are impossible to resolve outside the scope of supranational inter-

national systems. The protection of the country's interests requires active participation in such organizations and adequate knowledge of global development trends (Box 4.5).

<sup>13</sup> Source: National Statistical Service of the Republic of Armenia

## 4.5 BOX

### What can be expected from Armenia's imminent membership in WTO?

World Trade Organization (WTO) membership, in view of the circumstances described below, will considerably contribute to Armenia's effective integration into the global economy:

- ✍ Trade with 140 WTO member countries will enjoy the most favorable regime,
- ✍ Armenia will become much more attractive for foreign direct investment,
- ✍ Armenia's credibility as an economically predictable country with minimum business risks will increase,
- ✍ As a WTO member state, Armenia will benefit from the opportunities and advantages of participation in multilateral negotiations, dispute settlement mechanisms and trade policy discussions in the framework of the organization,
- ✍ The country will become immune from the ever increasing lobbying of local producers who have little concern for the interests of the whole economy,
- ✍ Interests of local producers will be protected much more effectively,
- ✍ The country will be able to avoid membership in more restrictive customs unions should need arise,
- ✍ WTO membership will contribute to more intensive trade and economic relations between Armenia and the EU.

**Economic Research Institute of the RA Ministry of Finance & Economy**

**Fourth**, the process of globalization tends to aggravate the difficulties facing countries which, for a variety of reasons (political, economic, social, ethnographic or cultural) have not consistently and effectively undertaken institutional and structural reforms and have not yet succeeded in solving the problems of transition. As a result, globalization can have quite a negative impact. Delays in addressing Armenia's transition problems will lead to a more acute manifestation of globalization's negative impact.

**Fifth**, globalization's positive impact may be stronger in countries that, due to a number of factors (rich natural resources, strategic geopolitical position, etc.) have more influence on global economic development. Armenia is favorably positioned geo-politically, and so in this regard has much potential, once the Karabakh conflict is resolved. Routing oil and gas pipelines across the country's territory, rebuilding the north-south highways and railways would be important factors for attracting considerable volumes of foreign investment. Additionally, Diaspora investors may become the second most important factor. This potential, should it fully materialize, will bring about a positive impact of globalization for Armenia.

**Sixth**, national economies have become increasingly interdependent in the era of globalization, and they are now more vulnerable to crises in global trade and financial markets or in individual countries. For example, the Armenian economy was severely affected by the Russian Federation's economic crisis in August 1998 (which in turn suffered from the impact of the "Asian" crisis in 1997-1998). As a

result, the volume of exports dramatically decreased as did the flow of remittances coming to Armenia, which, according to different assessments, several times exceeded the total net value of exports.

Consequently, in order to mitigate the impact of such economic shocks in the context of globalization, Armenia should diversify its foreign economic relations, bring the level of dependence on individual countries to a reasonable minimum, and expand its cooperation with more stable and developed markets.

**Seventh**, globalization should result in the national economy becoming a part of the universal economy, while governance institutions remain national. This would pose new qualitative problems for any countries, including Armenia, which is all the more dependent on the global economy because of its small size. Institutions responsible for managing economies should be able to organize the process in such a way as to ensure that all regulations and requirements of the global economic development are taken into account. This issue requires the design of a new governance concept and training of qualified professionals.

All of the above explicitly indicates that under the conditions of globalization, a country's integration into the global economy requires joint efforts, with a special emphasis on the country's ability to govern effectively, since as it was mentioned by Secretary General Kofi Annan "... we should learn to govern well and should learn how to govern well together"<sup>15</sup>.

# 4.3

## Effective, rational management - an essential prerequisite for good governance

Effectiveness of governance or management, manifests itself in the rationality and feasibility of administrative decisions taken in addressing specific issues and through that, in the knowledge and skills of decision makers. Highly effective management means adequate goal setting and achievement.

Worldwide, enhanced effectiveness of management and rationality of administrative decisions have become increasingly the focus of attention. The demand for effective management increases along with growing globalization and integration, the rising complexity of management hierarchies, the increased scale of operations and the accelerating pace of change in an economy (as with countries in transition) since these processes involve the entire management paradigm, factors of influence, results (direct and indirect) and a larger number of participating entities.

In view of Armenia's complicated geopolitical situation, its economic and other difficulties, the issue of increased quality of management is extremely important. Nonetheless, not enough attention has been paid to methodologies for effective management, for assessment, structures and experience. Thorough analyses of actual situations and factors of influence as a rule are lacking. Any systematized and comprehensive programs aimed at raising management efficiency have been situational and mostly addressed structural changes.

Obviously, the issue of increased quality of governance and management is pivotal for the country and should become a top priority of the Government's activities, while the elaboration of targeted measures be a most important function of a special body of governance system.

Under current conditions, a tangible increase in the effectiveness of governance will require a lot of effort in Armenia, necessitating the creation and development of i) **program provision**, ii) **scientific substantiation** and iii) **effectiveness assessment** systems for management. These steps are particularly crucial and need to be taken urgently, as they are the main prerequisites for

effective functioning of the country. The creation of the mentioned systems will also contribute to the democratization of management processes, and increase the involvement of specialists in the preparatory process of decision making.

### 4.3.1 Good Governance Basis

#### Program provision, scientific substantiation and assessment of effectiveness

The targeted approach towards management decision making implies elaboration of a program, which will become the prerequisite, basis and guidelines of any undertaking. Currently in Armenia programs on development, reforms, enterprise support or restructuring are developed at macro, micro and regional levels.

Their application base has increased, and so has the number of issues and problems requiring solutions, and demands made for the quality of such programs. However, not enough attention has been paid yet to the harmonization of solutions offered by different programs, which, in the context of globalization and integration, may detrimentally affect the entire process of implementing a consolidated policy of economic development for the country. Meanwhile, ensuring coordinated, targeted and regulated development is a matter of great urgency a country that does not yet have a developed market and self-regulating economic system, likewise Armenia. It requires the identification of a mechanism or an organizational modus that would enable coordination of the design of management program complex. It should also ensure that the decisions adopted in the framework of such programs contribute to addressing issues at a macro level, foster the development of priority sectors, prevent mistakes and mitigate possible risks, and generally contribute to the increased efficiency of program management in Armenia. The formulation of a **Program Provision System for Management (PPSM)** to be initiated by the Government and undertaken with the active involvement of all interested parties is suggested as one of solutions to this problem.

In this context, the suggested PPSM, taking a holistic approach to the country and developments in all spheres of life, would also attempt such a challenging task, as to estimate the impact that change in one segment would have on the other segments, and forecast how the economy will be affected by changes or ramifications of such change, thus "providing services" to all the parties involved both in the phase of decision making and their implementation.

While sharing many similarities, the process of developing and establishing a market economy differs from one country to the next. This also holds true for the paths selected, the pace of advancement, the approaches and mechanisms used, and the final results. All depend on each country's specifics, its methodologies and the mechanisms of taking these into account, as well as the ideology and the level of conceptual and practical readiness of the actors, the formulated objectives and the perception of these objectives by the society.

Neglecting local specifics in Armenia may result in considerable social, moral and economic loss for certain population groups. The Government's primary task is to minimize such losses by adopting managerial deci-

sions, especially those of universal application, based not only on the intuition, experience and knowledge of managers, but also on comprehensive expert research, though leaving the choice of the final solution to the manager.

Such research should be based on a coherent development theory (as famous economist Paul Heyne, has warned, "the one who uses no theory, seems to use the worst one..."<sup>16</sup>), which takes into consideration the conformity of human and social development. It should reflect adequately and explain the historical course of development in Armenia, take into account regional specifics, establish the milestones of further development. The design and the application of such a theory will require inherent capacities and scientific potential that may be described as a **conceptual-methodological basis and Scientific Substantiation System for Management (SSSM)**. In this context, studies and surveys (Appendix 3) and elaboration of supplementary tools (Box 4.6) facilitate sufficiently accurate forecasts of all possible consequences of the planned activities. All of this is necessary to maximize the impact and minimize the risks.

## 4.6 BOX

### International assistance database for Armenia (IADA)

The International Assistance Database for Armenia (IADA), established in 2001 thanks to the joint efforts of the Government of Armenia and UNDP, is fully operational online in English and Armenian, at <http://www.undp.am/devcoop/index.html> and <http://www.gov.am/links/IADA>. The information on international assistance to Armenia is continuously reviewed and updated by the Government and UNDP.

Due to IADA capacities, it is possible to receive both detailed and aggregated information by program, donor, settlement, residence, beneficiary, assistance type, etc. As for data entry, the module is accessible and seen only for those donors who have expressed willingness to cooperate with IADA in terms of terms of informational inputs. Thus, the authorized user can manage (update, change, delete) its data and be solely responsible for it.

TABLE Pledged and disbursed amounts to RA (1000 USD)

## 4.1

Donor #	Cumulative pledges	Cumulative disbursement	Disbursed					
			Up to 1997	1997	1998	1999	2000	2001 up to 01.06
26	2,197,972	1,717,365	673,466	210,134	249,651	194,096	355,072	34,946

The implementation and management of the IADA is an ongoing task that requires constant attention by the Government, by UNDP and by the international donor community. The data presented in the IADA cannot be considered complete yet, since they need further verification, addition and update. Yet the database has the potential for improvement. UNDP is continuing to support the operation of IADA by performing currently the tasks of administration of the database in terms of user and data access management, data security management. Along with this, the major part of the representatives of the donor community have expressed their willingness to provide online inputs to the database and make online monitoring and updating of information on their respective projects. Some of the donors, resident in Armenia, have already started to provide inputs and manage their data online.



It is understood that the primary responsibility for coordination of donor assistance lies with the Government - and the international community's support of the Government's efforts is anticipated. Armenia is on its way towards full-fledged coordination of international assistance. It will take much consolidated and planned effort to ensure universal and institutionalized understanding that all past, current and future international assistance received by Armenia in a form of technical assistance, grants, humanitarian assistance and loans, is indeed a substantive socio-economic development matter. In this respect IADA stands as a modern technological tool for a most efficient and economically justified realization of international assistance coordination and management in regard to identifying and developing future assistance priorities and respective projects, too.

### "Strengthening National Capacities for Coordination and Monitoring of International Assistance" UNDP Project

A solution to the problem may be found in the creation of special services for conceptual-methodological and scientific provision of management and the joint work of the latter with state bodies. Any entity providing conceptual, methodological and scientific support, regardless of its size and organizational structure, may be conventionally named a **think tank** or **research center**, while its participation in the decision making of the management body (combination of duties) - integration of the research in the management functions. The system of advisors is widespread on Armenia, and so is the practice of attaching scientific research staff to various divisions of the management system or creation of specialized science and methodology departments. However, these entities primarily deal with management functions rather than research proper. Hence, emerges the need for the creation of new entities or modification of the existing ones with the selection of the most feasible modality of such integration based on the assessment of the effectiveness of the scientific approach to management. It should also take into consideration the specificities of the Armenian management structure and scientific potential.

The creation of a system, working with a special targeted program, will result in a considerable reduction of management bureaucracy and open up new opportunities for recruitment of the scientific potential, the increased rationality of administrative decisions and consequently - an increase in the efficiency of management.

There is an urgent need to increase effectiveness of management in Armenia, which necessitates the elaboration of a program on an **Effectiveness Assessment System for Management (EASM)** in the first place. The key components of the program should include: methodology and tools for the management effectiveness assessment, guidelines for the application of the methodology, identification of the entities using the system and their terms of reference, data processing, math-

ematical, financial and technical support.

The operation of systems described above (PPSM, SSSM, EASM) closely relates to all aspects and functions of management, and contributes to its effective implementation. All these systems are closely interrelated and interwoven. As integral components of the entire management system, they provide for its regular operation. At the same time, the systems are beyond the very process of management, thus becoming a management infrastructure that largely predetermines the effectiveness of management.

Naturally, their structure (collective or individual) and the composition of sub-systems should be designed in line with the requirements of the governance system in Armenia and the nature of tasks it is called to address, and take place through a redistribution of functions and duties of the current management entities and systems, and should the need be, the creation of new entities. Given the ongoing PRSP process in Armenia, the creation of those systems today could greatly contribute to poverty reduction process through the overall management of its elaboration and implementation. Delays in the elaboration of a program for creating the above mentioned systems increase potential losses. While the creation and the development of such systems ensure increased transparency and democratization of the management processes through the involvement of an increased number of experts in the formulation, assessment, adoption and implementation of decisions, which is an extremely important means for the improvement of the management system.

The systems proposed in this theoretical framework will operate on a sustainable basis and will not shrink as the country develops. On the contrary, they will constantly expand and improve due to the growing complexity of the management functions in the context of integration and globalization.



# 4.4

## The human development concept and paradigm change

New developments dictate reconsideration of previously used approaches to receive better-substantiated solutions to the problems that would take into consideration the specifics of each country and society. The creation and continuous operation of the above presented complex system of Program Provision, Scientific Substantiation and Effectiveness Assessment for Management is certain to have a positive impact on Human Development as well. It could be used to initiate new research aimed at revealing, exploring and using major trends of societal development. All this should be based on sound development theory. In this context, it would be useful to set such a complex system of program-scientific provision and effectiveness assessment for Human Development in places with wide involvement of local scientific potential. That structure would provide the Government and all parties involved with conceptual recommendations, guidelines and information on the existing HD problems in the country.

Given that a comprehensive and one-time solution to all HD-related issues is impossible, sectoral study acquires particular importance. This research should be pursued according to priority and urgency of issues, or when the possibility and necessities appear for conducting combined studies, taking into consideration the influence of various and multifarious factors. Yet, this issue grows more complicated given that globalization and integration increase enormously the number of factors, ties and impacts.

Taking an hierarchic approach for describing goals of human development (the design of a tree or a graph of objectives) when solutions are driven not by a single objective, but are based on the "tree" of objectives with cause and effect mutual linkages, sub-objectives, could be very useful. It will help keep them in mutual congruence, while taking into consideration their priorities and the need for the solution of the most important ones, and terms of their implementation, without contradicting the goals at other levels.

In the context of Human Development, clear definition of objectives with their justification and elaboration of the most effective ways to achieve those objectives and make appropriate choices for concrete conditions is crucial.

The approach can be common. However, a solution should be found that is adequate to the specifics of the country.

The combination of research at local and global levels on the HD-related issues (which is often done through Global and National Human Development Reports) promotes the search for new approaches and solutions to the problems in Human Development. Such a combination would call on a wealth of knowledge from all over the world, without losing the national perspective.

As for activities related to the research on HD problems, preparation of National Human Development Reports (NHDR) is carried out along these lines. However it is expanding and diversifying, given the scope of issues that are of relevance or importance for various countries. As a result, NHDRs of a given country are often repetitive, while the NHDRs of different countries differ from each other by quality, approaches and the methodology of preparation. To solve the emerging problems and make the report maximally useful, methodological guidance would be useful.

The suggested hierarchic approach of goals and the solutions coupled with methodological recommendations and criteria, should enhance the effectiveness of NHDRs and the conceptual, R&D, analytical and application aspects of Human Development.

While presenting HD as a development Paradigm, UNDP thus made it a guideline for people's activities, i.e. a principle in making and substantiating human-centered decisions. At present, it is characterized as a process for expanding people's choices, viewing people both as a means and an end for development. Special attention is focused on creating an atmosphere that is conducive to enhancing people's choices, thus directly and indirectly influencing all spheres of life. A person's prosperity highly depends on how educated, healthy and economically secure one is. Though the individual and social realization of a person's opportunities depend on many factors, the above mentioned three components make up a composite tool of measurement by which to assess a country's progress or regress on human development (Annex II).

At the same time, the HD paradigm as a reality existing and evolving in time and with time, needs clarification and perfection. For instance "Human Development" suggests that at the core of the paradigm is a larger concept - the development of human society, therefore further clarification of its priorities -social development or poverty reduction; hierarchic description - people or individuals, the place and role of HD - a means or an end, will help better understand the paradigm and make better use of it.

Galileo Galilei considered the aim of science to measure everything that is measurable and to make measurable whatever cannot be measured. It is impossible to have an idea of any activities, process and results without qualitative evaluation. UNDP has made Human Development measurable, using an instrument that is easy in application and monitoring. The Human Development Index (HDI) facilitates an analysis of the state of HD-related affairs in a given country. However, the debates on the HDI and the need for its improvement

still continue. The new options of HDI created both at UNDP headquarters and in the countries (Annex II) indicate that there is room for rethinking the main approaches.

The increasing interest in NHDRs in Armenia changes expectations and demands of them and enlarges the audience. As an independent source of information, a tool for expressing the views of different strata of society, the Reports raise issues of common concern and suggest alternative solutions, which could help the government make the pursued policy more transparent by putting human -centered approaches on their agenda.

It is difficult to precisely evaluate the impact of NHDRs on public developments and the policies pursued or decisions made in the country. However, it is clear that its usefulness would increase if the issues raised and solutions suggested found their constant reflections in the programs of the government and the international organizations.

# 4.5

## Armenia's future in a globalized world

The post-industrial model creates new development opportunities for a country with scarce resources, such as Armenia, due to the utilization and development of human resources. The reproduction of the system of values and social institutions, proven in their efficiency, create a sufficient basis for this purpose. The suggested development approach considers three aspects.

### 1. Global development context

The current state of economy and society in the developed countries is described as the phase of **post-industrial development**, the main characteristics of which are: liberation of individuals from the tough control of authoritarian systems, prevalence of human rights and globalization, transition from labor to knowledge as the main production resource, and free flow of information and capital. A system is developed which is centered around the complete utilization and development of the individual's potential. Developing and transition countries whose objective is integration into post-industrial cooperation need to form economies and governance systems that are appropriate in the global development context and the country context. Should these prove flawed, then the countries will find themselves isolated.

### 2. Regional perspective

In the development concept, regional issues are viewed at least on three levels:

- ✦ settlements of conflicts, establishment of a security system, mutual cooperation and integration processes,
- ✦ strengthening of value-based cooperation in the public's consciousness, creation of an institutional environment for mutual trust,
- ✦ the place and role of the South Caucasus in the globalized world.

As a result of expansion of the European Union, the stability of the South Caucasus is viewed as an important link in European security, since our region is one of the components of the global communication systems as well as energy security for developed countries.

Therefore, our strategic partners are interested in seeing the South Caucasus as one geopolitical, communication and economic area, which is currently attainable only under conditions of removal of demarcation lines and comprehensive integration. Similarly, stable peace is attainable in the region only under conditions of one security system.

In the framework of the contemporary political paradigm, it is undeniable that ensuring stability and security in the long term is possible only under conditions of strengthening democracy and strengthening fundamental civic values. Therefore, **recognition of human development and human-centered laws as a top priority will become a basis for the resolution of conflicts.** The provisions mentioned at the regional cooperation level can be transformed into:

- ✎ cultural tolerance and pluralistic institutional protection,
- ✎ creation of inter-state mechanisms for ensuring the rights of religious, cultural, ethnic minorities,
- ✎ creation of regional institutions for the legal protection of human freedoms.

The introduction of security criteria dictated by the realities of the globalized world, as well as the creation of supranational regional structures, which would address the problems among nations (crimes against the people) within a legal framework, will become a sufficient basis for establishing an institutional environment for mutual trust and humanitarian values in the region.

### 3. Armenia's current characteristics

Ensuring Armenia's development into a post-industrial country requires taking the existing constraints into account. They can be conventionally divided into two interconnected groups - regional and structural:

- ✎ existence of the Nagorno Karabakh conflict and absence of democratic traditions,
- ✎ imperfect structural reforms (no real competitive economy has yet developed in Armenia).

At the same time, the idea of protecting property and freedoms is not reinforced, neither at the level of legal practices nor civic consciousness nor system of values and this poses dangers for the investment environment.

Currently Armenia is resource intensive and can only correspond to the old industrial model. In the era of the information revolution however, when freedom is considered the main resource for development, the success and development of a country is defined not by quantitative indicators but rather, first of all, by the reproduction capacity of social institutions and way of life that have proven their efficiency and supremacy. **Consequently Armenia's development is seen in the framework of a liberal economy, an open society and a social state.** Importance is given to the establishment and strengthening of institutions that guarantee freedoms. The provision of a social state is enshrined in the first article of the Constitution of Armenia, which cannot be amended. It implies the creation of a state which is exclusively oriented towards its citizens (until now this is not implemented in legal and political practices).

### Armenia's positioning

The criteria defined for Armenia's development concept, in addition to serving as guidelines for state, economic and civic system reforms, will also contribute to a clarification of Armenia's orientation towards the civilization of its preference. Accordingly, it is appropriate to adopt western values as development guidelines since:

- ✎ European criteria are anchored on efficient economic cooperation and on a fundamental system of values that is familiar to us and
- ✎ it provides an institutional environment for a model that is centered around human rights and freedoms, development, social protection as well as provides an open and multilateral basis for cooperation;
- ✎ it makes our development vector predictable, which is a major prerequisite for increasing investments.

### State: reforms

Under the conditions of globalization the question of structural reforms in Armenia can be defined as:

- ✎ reduction of the role of the state, creation of an efficient administration system and appropriate institutions dealing with global and regional cooperation issues,
- ✎ deepening of structural economic reforms and improvement of investment environment,
- ✎ formation of internal logic for development and stability.

The issues mentioned above are interconnected. The strengthening of political functions of the state and, first of all, the legal arena, eventually are geared towards the supremacy of law, provision of guarantees for freedoms and property, all of which are main preconditions for economic growth. Similarly, stability and economic growth are unattainable without democracy and a middle class. Taking shape over the course of the reforms, these crucial elements of society together will become the guarantor of freedoms and the client of the efficient state.

1. Given the absence of democratic traditions and weakness of civic institutions, as is the case in Armenia, the effectiveness of reforms is primarily conditioned by the state's activities. Consequently the reforms in state governance system should be a top priority. The directions and main features of such reforms are:

**Strengthening of legal systems:** securing the genuine independence of the courts; decentralization; limitation of the function of law enforcement institutions; involvement of prosecution in governmental structures; strengthening of tax collection mechanisms; reforms in the army.

**Reduction of state control over the economy:** de-bureaucratization of businesses; simplification of the taxation system; implementation of anticorruption programs; adoption of a law on civil service, etc.

**The optimization of the state administration system** will lead to the decentralization and broadening of local self-governance autonomy.

2. Steps taken to improve the investment environment will result in an increase of the economic freedom index. The index is an integral indicator, with well known components: increasing the efficiency of budgetary expenditures, redistributing the tax load, adhering to customs barriers according to international criteria, macroeconomic stability, supremacy of law, protection of property, etc.
3. Some implications of public behavior indicate that today in Armenia certain groups are forming whose lifestyles and aspirations are equivalent to the con-

temporary definitions of the middle class. At the same time, currently it is difficult to assume that those social groups having similar interests and lifestyles but occupying different social strata will spontaneously become mutually recognizable and capable of forming a public agenda. The formation of the middle class is a subject of social projection. It poses a certain objective before the state and political system, the implementation of which is the axis of the public concord.

Thus, if regional developments proceed successfully, structural reforms will become a basis for the inflow of investments and sustainable human development. To get on a track toward sustainable development, the state and the political system must clearly define the current agenda and make it public property: resolution of conflicts, integration, creation of an efficient state, guaranteeing freedoms, formation of a competitive economy, development of human resources.

## Innovative approaches to Armenia's development

The situation presented in the Report has deep roots and has been brought about by a willful disregard for the logic of historical development and for the specific nature of the environment that is being reorganized and reformed.

The ten years of the "transition period" have in fact thrown post-Soviet Armenia back to the 19th century models (of the Nation State) thus ignoring the fact that Armenians, having been part of the Soviet Union, already had the experience of living in a social State.

The widespread popular discontent and no less widespread out-migration are clear indications that, for the general public, the status of political independence does not counterbalance economic and social losses. Under such circumstances, one priority should be to address the social needs of the country and of its domestic policies and the task of bringing policy and practices to levels that are adequate for the progressive global tendencies.

Armenia's specific circumstances dictate the necessity of searching for ways out of the current situation through a non-traditional restoration of the rapidly disintegrating make-up of the advanced State with the well-developed spiritual and material culture and of the nation that is capable of adequately reacting to and participating in the events of modern life.

The people's natural talents and the country's achievements during the time when it was a part of the Soviet Union may prove to be of great help. This legacy could be used to good advantage for the country's development under the new conditions. At the same time it is also indispensable to change the perceptions of the spheres and means of earning incomes and profits and to shift from the material to a spiritual plane. In particular, it is important to stop seeing education as a commodity for exclusive domestic consumption. It may become a commodity that will be conducive to an inflow of foreign students, bringing hard currency. In such a case education will act as an export-replacing branch. As a source of adequate employment, it will also reduce out-migration of the best-educated segment of the population.

Thus, changing the traditional approaches to education would be instrumental in turning education into a driving force for lifting the country out of spiritual and material stagnation, in reversing the trend towards degradation, in promoting international ties and in overcoming regional seclusion. All this in the aggregate cannot fail to have a positive impact on the level of social protection of the population and on socialization of the society and the State as a whole.

The perspective of widely developing educational institutions in the country could be supported by such factors as the existing intellectual potential and good knowledge of foreign languages, including Oriental languages (provided the language base in the country will be expanding). Development will be enhanced further by the available material base (including premises of dormitories of universities and colleges) and by relatively low tuition fees and cost of living in Armenia.

The quality and attractiveness of education can be enhanced by inviting specialists from the Armenian Diaspora, including short-term engagements.

## 4.7 Box

Similar approaches could prove productive also in the health care sector, including health resorts near mineral springs. The establishment of large medical centers tapping into the pool of well-known specialists from the Diaspora would help the country to earn hard currency and gain prestige. This is a serious consideration in terms of the solution of foreign policy problems of Armenia.

The development of culture as a hard-currency earning sector requires the establishment of large companies (like Armconcert, etc.), which would, due to its organizational base in the country, be able to export the culture abroad through concerts of troupes or individual performers, through painters' exhibitions, displays and the establishment of art galleries.

Export activities of scientific and technological entities, of architectural, construction, restoration workshops as well as the development of high technologies and its subsequent sale as a finished export commodity could be patterned on the same model.

The implementation of the proposed model is predicated on serious organizational efforts and management, on the formulation of the task at the State level and on the carrying out of private initiatives.

The output of the food-processing and light industries and home crafts as well as the household goods produced by chemical industry could have good export prospects.

Should the plan briefly outlined above be implemented successfully, the country will have good prospects for raising living standards, creating new jobs and reducing out-migration. Armenia will have an opportunity to restore, on a new basis, its former social-cultural image, which will be further enriched through the achievements in the field of democracy, free initiative and assertion of the unconditional value of the individual accompanied by adequate material and social protection.

**Seda Vermisheva**



# 4.6

## Conclusion

The 21st century has introduced new tendencies for development, which pose new challenges for the world, including 10 year-old independent Armenia.

Situated on the crossroads of historical civilizations, Armenia has celebrated its 1700th anniversary of the adoption of Christianity as state religion in 2001. Through out its centuries-long history, it has always preferred "dialogue" and coexistence of civilizations and in Having irreversibly chosen integration into western civilization, which is justifiably so given the value system that has crystallized over centuries, and the cultural and ideological/conceptual commonalities and similarities in principles, Armenia will continue to be faithful to its preference of coexistence. As an ancient nation it has much to share and much to learn as a young democracy.

As of today, Armenia must come to terms with two issues of utmost importance:

- ✍ preservation of its cultural, national and religious characteristics, and
- ✍ keeping pace with history and taking advantage of development.

If these challenges are not met, Armenia will face the threat of marginalization. Instead of becoming a fully-fledged member of the international community, Armenia could wind up a subject dependent upon/ subsumed by any powerful civilization.

At a glance, these two issues mutually exclude each other, however, only at a first glance. In essence they are overlapping issues, the solution to which requires a strong commitment and powerful political will, and consolidation of the country's and nation's historically accumulated spiritual, cultural, intellectual and economic potential.

The values, top priorities, and principles for action declared in this Report, which should be reinforced by a comprehensive and relevant plan of action are:

- ✍ democracy,
- ✍ introduction and promotion of new technologies,
- ✍ reduction of poverty and unemployment,
- ✍ regulation of out-migration,
- ✍ improvement of demographic situation,

- ✍ protection of environment,
- ✍ genuine access to justice,
- ✍ a fair solution to the Karabakh issue,
- ✍ improvement of the legal framework,
- ✍ establishment of effective state and local state governance,
- ✍ establishment of competent civil service,
- ✍ preservation and development of culture,
- ✍ a true separation of the branches of the power,
- ✍ establishment of competitive and free markets,
- ✍ elimination of double standards in all spheres,
- ✍ reforming of social assistance and social protection systems,
- ✍ improvement of social situation,
- ✍ investments in human capital,
- ✍ combating corruption and the shadow economy,
- ✍ rooting out protectionism,
- ✍ empowerment of civil society institutes,
- ✍ creation of an atmosphere favorable for attracting investment,
- ✍ reforming the education system and adapting it to the country's strategic vision,
- ✍ development of science, introduction of scientific substantiation for governance, etc.

The sequence and means of addressing effectively these issues are presented in detail in respective chapters of the Report.

The ten-year period of groping for a new life and vision has been rich with achievements and disappointments, gains and losses. The time is ripe for a targeted, comprehensive and human-centered policy to be put together and implemented with efficiency and effectiveness.

Armenia's further progress depends on the urgent solutions to these problems, as well as the pace and the effectiveness of its involvement in global development processes. Only then it will be possible to secure a prosperous future for the country and its people.



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Annexes

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## 1

STATISTICAL TABLES<sup>1</sup>

## ANNEX

## 1. Human Development Index

	1997	1998	1999	2000
Life Expectancy at birth (years)	73.9	74.7	73.2	72.5
Adult literacy (%) 1989	98.8	98.8	98.8	98.8
Combined first-second-third- level enrolment ratio (%, 7-17 age)	64.8	61.4	60.2	59.6
Real GDP per capita	429.8	499.0	485.0	503.6
GDP per capita (PPP\$)	2064	2229	2323	2545
Life Expectancy index	0.815	0.828	0.803	0.792
Education index	0.875	0.863	0.853	0.857
GDP index	0.505	0.518	0.525	0.540
Human Development Index (HDI) value	0.732	0.736	0.729	0.730
GDP per capita (PPP\$) rank minus HDI rank				

## 2. Gender related Human Development Index

		1997	1998	1999	2000
Gender related development index (GDI) rank					
Life expectancy at birth (years)	Female	77.3	78.1	75.5	74.5
	Male	70.3	70.8	70.7	70.5
Adult literacy rate (%), 1989	Female		98.8		
	Male		98.8		
Combined first-second- and third-level gross enrolment ratio (%)	Female	68.2	68.1	63.1	63.6
	Male	58.7	59.1	57.3	55.6
Share of earned income (%)	Female	32.5	32.9	33.0	33.0
	Male	67.5	67.1	67.0	67.0
GDI value		0.719	0.732	0.722	0.715
HDI rank minus GDI rank					

### 3. Gender Empowerment Measure

	1997	1998	1999	2000
Gender empowerment measure (GEM) rank, as of beginning of the year				
Seats in Parliament, held by women (%), as of beginning of the year	6.3	3.1	3.1	3.1
Female administrators and managers (%), as of beginning of the year	29.0	32.1	35.4	34.5
Female professional and technical workers (% of total)	68.5	65.1	65.6	65.2
Women's share of earned income (%)	0.498	0.684	0.496	0.493
GEM value	0.370	0.351	0.351	0.359

### 4. Trends in Human Development and Economic Growth

Reduction in shortfall (1-HDI) in Human Development Index (HDI) value (%) /1994=100/	1996	94.6
	1997	90.5
	1998	87.4
	1999	
	2000	
Real GDP per capita (USD, 1994 prices).	Lowest value during 1994-1999	172
	Lowest value during 1994-2000	172
	Highest value during 1994-1999	499.0
	Highest value during 1994-2000	503.6
	1994	172
	1997	429.8
	1998	499.0
	1999	485.0
	2000	503.6
	Average annual rate of change (%)	1960-1994
1995-1998		4.1
1995-2000		7.8

### 5. Trends in Human Development

	1997	1998	1999	2000	
Life expectancy at birth (year)	73.9	74.7	73.2	72.5	
Population with access to	Health care (%)	80.0	80.5	81.2	81.3
	Safe water (%)	85.0	86.0	97.0	92.6
	Sanitation (%)	67.0	67.0	69.0	69.1
Daily calorie supply per capita	2016				
Adult literacy rate (%), 1989	98.8				
Gross enrolment ratio for all levels (%)	64.8	61.4	60.2	59.6	
Daily newspapers (circulation per 100 persons)	3.65	3.6	3.9	4.4	
TV (per 100 persons)	14.4	14.9	15.2	15.2	
Real GDP per capita	429.8	499.0	485.0	503.6	
GDP per capita (PPP\$)	2064	2229	2323	2545	



## 6. Trends in Human Development

Life expectancy at birth (years)	1997	73.9
	1998	74.7
	1999	73.2
	2000	72.5
Infant mortality rate (per 1000 live births)	1997	15.4
	1998	14.7
	1999	15.4
	2000	15.6
Population with access to safe water (%)	1997	85.0
	1998	86.0
	1999	97.0
	2000	92.6
Adult literacy rate (%)*	1989	98.8
	1999	98.8
	2000	98.8
Gross enrolment ratio for all levels (%)	1997	64.8
	1998	61.4
	1999	60.2
	2000	59.6
Real GDP per capita	1997	429.8
	1998	499.0
	1999	485.0
	2000	503.6

\* according to 1989 census

## 7. Women's Access to Education

		1997	1998	1999	2000	
Female net enrolment	Secondary school	Ratio	90.8	91.8	95.6	96.5
		Index (1980=100)	95.6	96.7	100.7	101.6
Female tertiary students	(per 100 000 women)	Index (1980=100)	88.2	93.5	99.0	99.5
		Index (1980=100)	1550	1643	1740	1749
Life expectancy of female at birth	Age	Index (1980=100)	77.3	78.1	75.5	72.5
		Index (1980=100)	106.2	107.3	103.7	99.6
General fertility	Index (1980=100)	Index	1.453	1.297	1.194	1.190
		Index (1980=100)	62.9	56.1	51.7	51.5

## 8. Women's Participation in Economic and Political Life

		1997	1998	1999	2000
Female administrators and managers	Female ratio (%)	29.4	31.7	34.3	34.5
	Female-male ratio (%)	41.6	46.5	52.2	52.7
Female professional and technical workers*	Female ratio (%)	68.5	65.1	64.5	64.1
	Female-male ratio (%)	217.4	186.6	181.7	178.6
Female clerical and sales workers	Female ratio (%)	43.4	48.2	40.9	40.5
	Female-male ratio (%)	76.6	93.0	69.2	68.1
Female service workers	Female ratio (%)	62.0	62.5	62.2	62.4
	Female-male ratio (%)	162.9	166.6	164.4	166.0
Women in government	Total (%)	47.4	41.5	39.0	39.0
	At sub-ministerial level (%)		2	2.4	2.4

\* Indices are calculated based on the number of the employed population registered in the RA NSS

## 9. Child Survival and Development

	1996	1997	1998	1999	2000
Pregnant women aged 15-49 with anemia (%)	10.9	12.6	14.8	15.3	15.7
Births attended by trained personnel (%)	98.7	98.3	98.5	98.6	99.1
Low birth weight infants (up to 2500 grams,%)	7.89	7.9	8.5	8.5	8.2
Maternal mortality rate (per 100,000 live births)	20.8	38.8	25.4	32.9	52.5
Infant mortality rate (per 1000 live births)	15.5	15.4	14.7	15.4	15.6
Under-five mortality rate (per 1000 live births)	19.5	19.5	18.4	19.2	19.3
Mothers exclusively breast feeding at four months and more (%)	42.0	52.6	53.0	54.4	56.0

## 10. Health Profile

		1997	1998	1999	2000
One-year-olds fully immunized against	Tuberculosis (%)	72.3	94.9	95.0	95.0
	Measles (%)	91.5	93.5	94.8	95.0
AIDS cases (per 100,000 people)		1.1	1.1	0.2	0.0
Tuberculosis cases (per 100,000 people) (# of those under dispensary control in the anti-tuberculosis hospitals as of the end of year, per 100 000)		103.1	122.5	138.8	143.5
Malaria cases (per 100,000 people, identified for the first time)		22.2	30.8	16.2	3.7
Cigarette consumption (per adult per day)		15	16	16	15
The number of people attending per doctor		291	292	301	319
The number of people attending per nurse		143	147	154	172
People with disabilities (as % of total population)		2.66	2.62	2.60	2.73
Public expenditure on health (as % of GDP)		1.4	1.4	1.4	1.0

## 11. Food Security

	1997	1998	1999	2000
Food production per capita index (1980=100)		10.4	11.0	11.5
Agriculture production (as % of GDP)	29.4	29.8	31.6	22.5
Food consumption (as % of total individual consumption)	64.6	70.4	67.0	58.7
Daily per capita supply of calories	2016			
Sea food per capita (annual), kg	2.5	2.6	4.3	4.3
Food imports (as % of the total merchandise imports)	30.7	32.6	26.1	23.0
Cereal imports (1000 tons)	221.9	310.5	272.7	418.0
Food aid in cereals (1000 tons)	114.6	98.8	7.4	52.1

## 12. Education Imbalances

		1997	1998	1999	2000
Obligatory education (duration by years)		10	8	8	8
Enrolment to secondary technical institutions (as % of enrolment to secondary institutions)		22.9	24.1	26.3	26.7
Tertiary natural and applied science enrolment (as % of total tertiary)		61	58	51.3	49.3
Enrolment to tertiary education abroad (as % of total tertiary)		0.2	0.2	0.2	0.2
R&D scientists and technicians (per 1000 people)		2.0	2.1	1.7	1.71
Public expenditures on	Education (as % of GNP)	2.0	2.1	1.9	2.6
	Education (as % of total government expenditure)	11.1	9.5	8.2	12.2
	Primary and secondary education (as % of all levels)	83.6	61.6	74.5	66.5
	Higher education (as % of all levels)	15.5	15.1	13.7	11.4

## 13. Profile of People in Work

Labor force (as % of total population)		1997	1998	1999	2000
		40.6	38.9	38.5	38.2
Women's share of adult labor force (% age 15 and above)				1997	51.3
				1998	50.1
				1999	49.0
				2000	50.7
Percentage of labor force in	Agriculture & forestry	1997	41.3		
		1998	42.5		
		1999	43.3		
		2000	43.3		
	Industry	1997	16.7		
		1998	15.7		
		1999	15.0		
		2000	15.0		
	Services	1997	37.6		
		1998	37.5		
		1999	37.4		
		2000	37.4		
GDP per capita annual growth rate (%)				1997	3.1
				1998	7.3
				1999	3.3
				2000	6.0

### 14. Access to Information and Communication

	1997	1998	1999	2000
Radios (per 1,000 people)	39	36	32	28
Televisions (per 1,000 people)	144	149	152	152
Printed books and brochures (per 100,000 people)	11.3	14.1	19.1	19.0
Printing and writing paper consumed (metric tons per 1,000 people)	0.66	0.71	0.77	0.8
Post offices (per 10,000 people)	2.2	2.4	2.4	2.4
Length of telephone lines (km per 10,000 people)	1.28	1.30	1.29	1.36
International telephone calls (minute per person)	3.0	5.0	4.8	4.4
Cellular mobile telephone subscribers (per 1,000 people)	1.6	1.9	2.1	17.4
Internet users (per 10,000 people)	3.96	10.8	16.05	17.10

### 15. Investments in Social Sphere

		1997	1998	1999	2000
Expenditures on the payment of transfers in social safety nets (as % of GDP)		5.9	5.9	6.5	6.0
Expenditures by spheres (as % of total social expenditures)	Allowances*	16.0	25.8	30.7	21.7
	Education	34.1	29.4	29.6	40.2
	Health	24.2	23.8	21.1	16.0

\* (family allowances for the poor and extraordinary material support)

### 16. Military Expenditures and resource use imbalance

Defense expenditures	As % of GDP	1997	3.9
		1998	3.5
		1999	3.6
		2000	3.5
	Per capita (USD; 1995 prices)	1997	11.5
		1998	17.8
		1999	17.5
		2000	17.9
Military expenditures (as % of combined health and education expenditure)		1997	135.0
		1998	109.2
		1999	109.8
		2000	99.6

### 17. Resource Inflow

		1997	1998	1999	2000
Total external debt	USD millions	682.5	775.3	870.3	859.5
	As % of GDP	42.0	42.4	45.8	44.9
Debt service ratio (debt service as % of exports of goods and services)		3.7	7.1	5.6	9.1
Total net official development assistance (ODA) received	USD millions	150.8	118.7	97.6	103.0
	As % of GDP	9.3	6.3	5.3	5.4
	Per capita (USD)	39.4	31.3	25.7	27.1
Net foreign direct investment (as % of GDP)		3.2	12.2	6.6	6.2
Export/import ratio (exports as % of import)		34.6	35.9	41.6	33.6
Current account balance before official transfers (USD millions)		-455.9	-515.6	-400.7	-380.9

### 18. Growing Urbanization

		1997	1998	1999	2000
Urban population (as % of total)	1995, 1996, 1997	66.9	66.8	66.7	66.6
	2000	67.0			
Urban population annual growth rate (%)	1960=100	2.75			
	1997-2000	0.2			-0.05
Population in cities of more than 750.000	As % of total population	33.0	32.9	32.8	32.8
	As % of urban population	49.3	49.2	49.2	49.2
Largest city	City	Yerevan			
	Population (thousands)	1249.7	1248.7	1248.2	1247.2
	Growth rate (%)	1990-95	- 0.05		
1996-2000		- 0.05			



## 19. Population Trends

		1997	1998	1999	2000
Estimated population (millions)	1960	1.8			
	1996, 1997 1998, 1999	3.8	3.8	3.8	3.8
	2000	3.8			
Annual population growth rate (%)	1960-96	2.1			
	1997-2000	0.20			0.15
Crude birth rate		11.6	10.4	9.6	9.0
Crude death rate		6.3	6.1	6.3	6.3
Total fertility rate		1.45	1.3	1.19	1.19
Contraceptive prevalence rate, any method (per 1000 women of fertile age)		17.9	33.7	31.5	32.0
Dependency ratio (%)		57.8	59.5	60.0	66.6
Population aged 65 and above (as % of total population)		8.3	8.6	8.3	8.9

## 20. Energy Use

		1997	1998	1999	2000
Electricity consumption	Total (millions of kilowatt /hours)	6030	6191	5717	5958
	Index (1990=100)	58	60	55	57
	Per capita (kilowatt / hours)	1593	1631	1503	1567
Household energy from fuel-wood (oil equivalent), per capita, kg		5.4	4.1	4.2	4.2
Commercial energy use (oil equivalent)	Total (million tons)	1686	1733	1601	1668
	Per capita (tons)	446	457	421	439
	GDP output per kilogram (USD)	0.972	1.092	1.152	1.148

## 21. Utilization of Natural Resources

	1997	1998	1999	2000
Land area (1 000 ha)	2974.3	2974.3	2974.3	2974.3
Forest and woodland (as % of land area)	11.2	11.2	11.2	11.1
Arable land (as % of the total territory)	16.6	16.6	16.6	16.6
Irrigated land (as % of total arable land)	41.1	41.1	41.1	41.0
Annual rate of deforestation (%), 1990-1997	0.2			
Forest and woodland (1000 km <sup>2</sup> per capita)	0.09	0.09	0.09	0.09
Annual rate of reforestation (%)	0.5	0.3	0.3	0.3
Internal renewable water resources per capita (cubic meters per year)	1.74	1.74	1.74	1.72

## 22. National Income Accounts

	1997	1998	1999	2000
GDP (billions USD)	1.6	1.9	1.8	1.9
Agriculture (as % of GDP)	29.4	30.8	27.2	23.1
Industry (as % of GDP)	22.5	19.9	21.2	22.1
Services (as % of GDP)	31.8	31.8	34.9	35.2
Consumption				
Private (as % of GDP)	103.3	99.9	95.4	95.1
Public (as % of GDP)	11.2	11.1	10.7	12.0
Gross domestic investment (as % of GDP)	19.1	19.1	18.4	19.1
Gross domestic savings (as % of GDP)	-5.3	-2.2	-0.03	-
Net taxes from goods and import (as % of GDP)	8.0	9.3	8.5	9.1
Government expenditures (as % of GDP)	6.5	6.6	7.1	7.1
Export (as % of GDP)	20.3	19.0	20.8	23.2
Import (as % of GDP)	58.3	52.8	49.8	50.3

## 23. Trends in Economic Performance

	1997	1998	1999	2000
GDP (million USD)	1638.9	1892.3	1844.6	1915.2
GDP annual growth rate (%)	103.1	107.3	103.3	106.0
GDP per capita annual growth rate (%)	103.0	107.1	103.1	105.9
Average annual rate of inflation (%)	14.0	8.7	2.0	-0.8
Exports* (as % of GDP)	20.3	19.0	20.8	23.2
Direct taxes (as % of total taxes)	3.9	2.9	4.1	3.3
Tax revenue (as % of GDP)	12.8	13.6	22.4	13.9
Overall budget surplus/deficit (as % of GDP)	-2.5	-4.2	-5.9	-3.6

## 24. Health Profile

			1997	1998	1999	2000
Adults who smoke (%)	Male		70	69	68.8	68.8
	Female		6	6.2	6.6	6.7
Alcohol consumption per capita (liter)			2.6	2.6	2.58	2.59
Likelihood of dying after age of 65	Heart disease (per 1000 people)	Male	317	322	306	221
		Female	306	285	287	205
	Cancer (per 1000 people)	Male	71	75	76	75
		Female	38	42	40	41
AIDS cases (per 100,000 people)			1.1	1.1	0.2	0.3
People with disabilities (as % of total population)			2.66	2.62	2.67	2.73
Public expenditure on health (as % of total public expenditure)			7.7	7.3	5.8	4.7
Private expenditure on health (as % of total health expenditure)			88.0	87.0	89.0	89.0
Total expenditure on health (as % of GDP)			1.4	1.4	1.37	1.0

## 25. Education

	1997	1998	1999	2000
Full-time students per 100,000 people (age 7-22)	60.6	60.1	59.7	57.2
Secondary full-time net enrolment ratio (%)	78.4	78.7	78.7	75.8
Enrolment ratio to secondary technical institutions (as % of total enrolment to secondary education)	40.2	40.0	39.2	26.7
Net ratio of tertiary students (as % of total tertiary, age 17)*	19.6	19.4	21.3	21.0
Tertiary natural and applied science enrolment (as % total tertiary)	38.9	39.0	39.2	39.2
Public expenditure on higher education (as % of all levels)	15.5	15.1	13.7	12.5
Public expenditure on the 3rd level of education (USD, per student)	119.7	135.1	121.7	131.8
Public expenditure on education (as % of GDP)	2.0	2.1	1.9	2.4

\* net ratio of those 17 year-olds enrolled in tertiary education (studying in the 1st grade)

## 26. Profile of People in Work

		1997	1998	1999	2000
Labor force (as % of total population)		40.6	38.9	38.4	38.2
Percentage of labor force in	Agriculture & forestry	41.3	42.5	43.3	43.3
	Industry	16.7	15.7	15.0	15
	Services	37.6	37.5	37.4	37.4
Future labor force replacement ratio		157.6	131.6	137.1	147.9
Real earnings per employee annual growth rate (%)		30.0	31.8	19.2	13.4
Labor force unionized (%) for 1997-2000 (average)		61			
Expenditure on labor market programs (as % of GDP)		0.104	0.069	0.155	0.091

## 27. Unemployment

		1997	1998	1999	2000	
Unemployment people (thousands)		174.4	133.8	175.0	153.9	
Average unemployment rate (%)		10.8	9.4	11.2	11.7	
Unemployment rate (%)	Male	3.1	2.8	3.8	4.2	
	Female	7.7	6.6	7.4	7.5	
Youth unemployment rate (%)	Male (18-22 age)	0.5	0.4	0.4	0.3	
	Female (18-22 age)	1.2	0.7	0.7	0.6	
Incidence of long term unemployment (%)*	6 months or more	Male & female	86.6	82.8	82.0	89.6
		Female	87.3	85.0	84.3	90.0
	12 months or more	Male	67.0	61.8	51.6	70.1
		Female	71.4	70.8	66.3	75.4
Involuntary part-time workers (as % of total labor force)**		1.2	1.0	1.3	2.8	
Unemployment benefits expenditure (as % of total public expenditure)		0.4	0.3	0.5	0.1	

\* As of the end of the year

## 28. Social Stress and Social Change

	1997	1998	1999	2000	
Prisoners (per 100,000 people)	187	169	172	179	
Young adult prisoners by men (as % of total prisoners)	6.1	4.4	5.1	3.9	
Intentional homicides by men (per 100,000 people)	4.1	2.2	4.2	2.4	
Drug crimes (per 100,000 people)	11.3	14.3	12.6	12.7	
Reported adult rapes (per 100,000 people)	0.8	0.5	0.6	0.7	
Injuries and deaths from road accidents (per 100,000 people)		4.9	5.6	4.6 3.5	
Suicides (per 100,000 people)	Male	3.4	2.6	3.4	2.5
	Female	1.2	0.9	1.2	0.7
Divorces (per 1,000 married during the year, as of the end of year)	185	142	101	102	
Single female parent homes (%)	4.5	6.3	8.2	.....	
Births to mothers aged 15-19 (per 1000 mothers aged 15-19)	43.4	34.6	29.8	29.0	
One -person households headed by women aged 65 and above (as % of all households)	4.5	3.3	1.2	1.2	

## 29. Financial Resource Inflows and Outflows

	1997	1998	1999	2000
Export-import ratio (exports as % of imports)	34.6	35.1	41.6	33.6
Export growth rate (as % of import growth rate)	76.7	124.0	118.0	117.7
Dependence of trade (import-export combined as % of GDP)	70.2	59.1	56.5	50.0
Net foreign direct investment (as % of GDP)	3.2	12.2	6.6	6.2
Net workers' remittances from abroad (USD million)	124.0	82.3	79.7	78.2
Current account balance before official transfers (USD million)	-306.5	-402.9	-306.9	-278.4

### 30. Managing the Environment

		1997	1998	1999	2000
Greenhouse gas emissions	CO <sub>2</sub> , thousand ton	8.3	7.4	8.7	15.5
	Methan, thousand ton	22.1	17.6	4.0	9.8
	NO <sub>4</sub> , tons	1.2	0.3	0.7	2.0
Major protected areas (as % of national territory)		10,6		10.8	11.0
Spent fuel produced (metric tons of heavy metal)		1.9	0.1	0.2	0.2
Hazardous waste produced (1,000 metric tons)		0.02	0.03	0.05	0.05
Municipal waste generated (kg, per person)		285	262.4	246.8	247.0
Population served by public sanitation services (%)		67.0	67.0	67.8	67.9
Waste recycling (as % of apparent consumption)	Paper & cardboard	1.6	1.2	2.0	2.0
	Glass	27.0	28.4	35.6	35.9



Human Development Index (HDI)<sup>1</sup>

HDI rank	Life expectancy at birth (years)	Adult literacy rate (%)	Combined first-second and third-level gross enrollment ratio (%)	Real GDP per capita (PPP USD)	Life expectancy index	Education index	GDP index	Human Development Index (HDI) value	Real GDP per capita (PPP USD) rank minus HDI rank
High Human Development (1-48)									
<b>1.</b> Norway	78.4	99.0	97	28,433	0.89	0.98	0.94	0.939	2
<b>6.</b> U.S.A	76.8	99.0	95	31,872	0.86	0.98	0.96	0.934	-4
<b>17.</b> Germany	77.6	99.0	94	23,742	0.880	0.97	0.91	0.921	-3
<b>22.</b> Israel	78.6	95.8	83	18,440	0.89	0.91	0.87	0.893	3
<b>34.</b> Argentina	73.2	96.7	83	12,277	0.80	0.92	0.80	0.842	6
<b>44.</b> Estonia	70.3	98.0	86	8,335	0.76	0.94	0.74	0.812	6
Medium Human Development (49-126)									
<b>50.</b> Latvia	70.1	99.8	82	6,264	0.75	0.93	0.69	0.791	12
<b>53.</b> Belarus	68.5	99.5	77	6,876	0.73	0.92	0.71	0.782	5
<b>55.</b> Russian Federation	66.1	99.5	78	7,473	0.69	0.92	0.72	0.775	0
<b>72.</b> Armenia	<b>72.7</b>	<b>98.3</b>	<b>80</b>	<b>2,215</b>	<b>0.80</b>	<b>0.92</b>	<b>0.52</b>	<b>0.745</b>	<b>44</b>
<b>76.</b> Georgia	73.0	99.6	70	2,431	0.80	0.89	0.53	0.742	32
<b>79.</b> Azerbaijan	71.3	97.0	71	2,850	0.77	0.88	0.56	0.738	27
<b>82.</b> Turkey	69.5	84.6	62	6,360	0.74	0.77	0.69	0.735	-21
<b>90.</b> Iran	68.5	75.7	73	5,531	0.73	0.75	0.67	0.714	-21
<b>104.</b> Bolivia	62.0	85.0	70	2,355	0.62	0.80	0.53	0.548	7
<b>126.</b> Congo	55.1	79.5	63	727	0.44	0.74	0.33	0.502	29
Low Human Development (127-162)									
<b>134.</b> Haiti	52.4	48.8	52	1,464	0.46	0.50	0.45	0.467	-4
<b>146.</b> Angola	45.0	42.0	23	3,179	0.33	0.36	0.58	0.422	-44
<b>162.</b> Sierra Leone	38.39	32.0	27	448	0.22	0.30	0.25	0.258	0

TABLE 1

HDI Ranking of Armenia Among Other Countries, 1999<sup>2</sup>

The Human Development Index (HDI) measures the achievements in human capacities or their absence and facilitates the classification of countries based on the components of leading a long life (Life Expectancy Index-LEI), being knowledgeable (Education Index-EI) and enjoying a decent standard of living (GDP Index).

HDI and a country's ranking may change from year to year depending on internal and external developments.

The HDI analysis by components reveals the state of affairs in a country within specific spheres and proves that the link between economic prosperity and human development is not automatic. For example, Armenia and Oman which occupy 72 and 71 places respectively have very different values of GDP per capita, with a higher value in Oman which is compensated for by the more highly developed human capital in Armenia (i.e., higher values of the health and education indicators).

TABLE 2 Similar HDI, different income, 1999

Country	Life expectancy (years)	Adult literacy (%)	GDP per capita (PPP USD)	HDI value	HDI rank
Oman	70.8 (0.76)	70.3/58 (0.76)	13,356 (0.66)	0.747	71
Armenia	72.7 (0.80)	98.3/80 (0.80)	2,215 (0.52)	0.745	72

With normalization of the values of the variables that make up the HDI, its value ranges from 0 to 1. The HDI value for a country shows the distance it must travel to

reach the maximum possible value of 1- or its shortfall - and the challenge for every country is to find ways to reduce its shortfall.

FIGURE 1 The Breakdown of HDI Components<sup>3</sup>

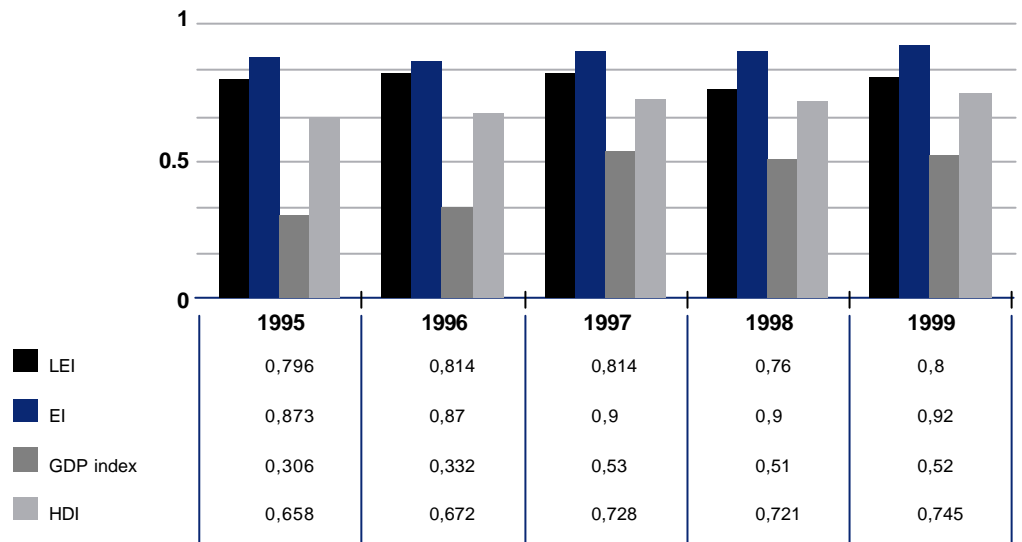
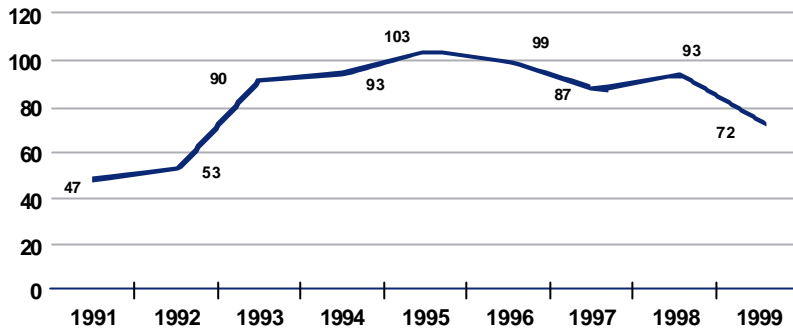


FIGURE 2 The Dynamics of Armenia's HDI ranking<sup>4</sup>

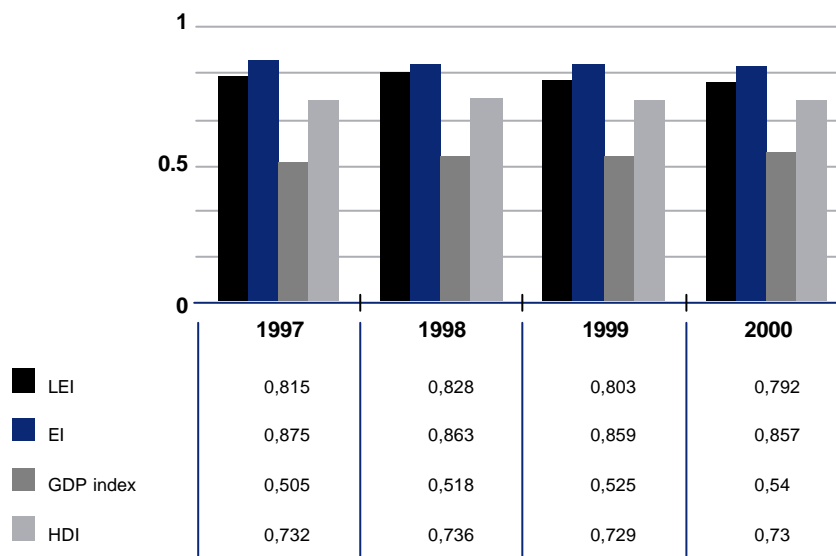


According to HDR 2001 Armenia has advanced from 93rd (2000) place to 72nd thanks to the high indices of HDI components: education (0.90-0.92) and life expectancy (0.76-0.80) indexes as well as certain economic growth (0.51-0.52) registered in the country. Besides, at the international level, instead of the previous 174 countries, only 162 countries were included in the global ranking, hence seven countries with traditionally high human development were left out from the list,

mechanically improving Armenia's ranking. With a rather unstable HDI dynamics, Armenia managed to stay amongst countries with medium human development due to the high human capital. However, the repeatedly voiced concern that the current insufficient realization of economic and social rights and of development opportunities will eventually endanger Armenia's comparative advantages such as human capital and potential.

### 1. Calculation of the HD indices by Armenian experts<sup>5</sup>

FIGURE 3 The Breakdown of HDI Components



## 2. The Gender-related Development Index (GDI) for Armenia

GDI which adjusts the average achievement (HDI) to reflect inequalities between men and women, manifests disproportions in society through its components - equally distributed life expectancy index; equally distributed education index; equally distributed income index. In

case of the first two, the female/male ratio in absolute values benefit women in Armenia (Life expectancy index - 1.044:1; Education index - 1.031:1).

Income index is skewed towards men, since women's achievements clearly lag behind. In the share of economically active population with a female/male proportion of 0.91:1, the relative share of women's income constituted 0.321 and the adjusted GDP per capita ratio- 0.45:1 while the equally distributed income index was 0.519.

FIGURE 4 LEI and equally distributed LEI according to HDI and GDI

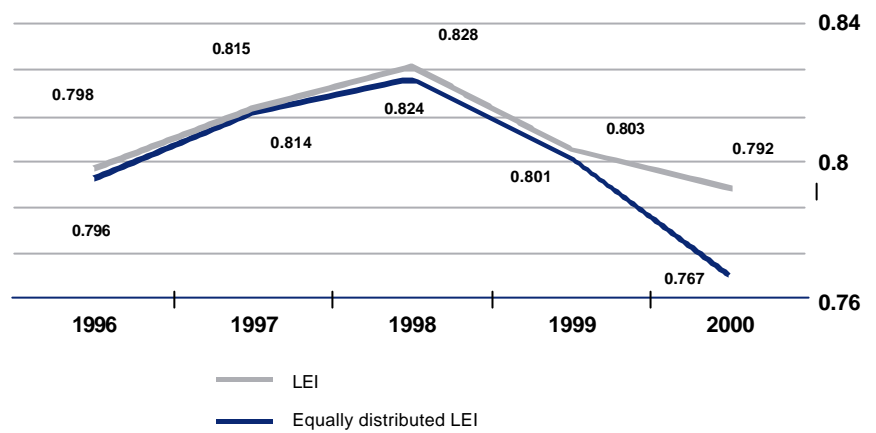
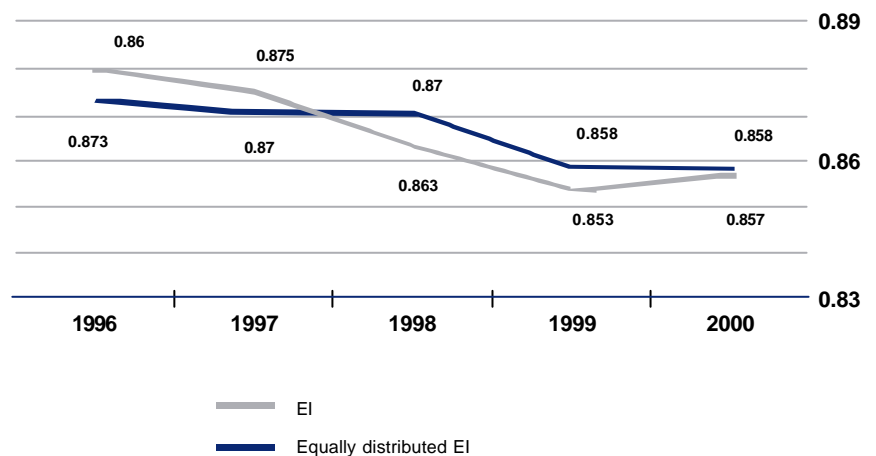
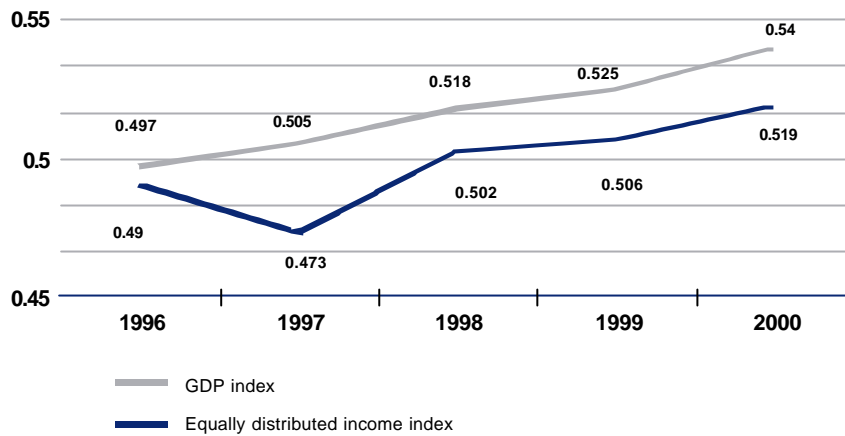


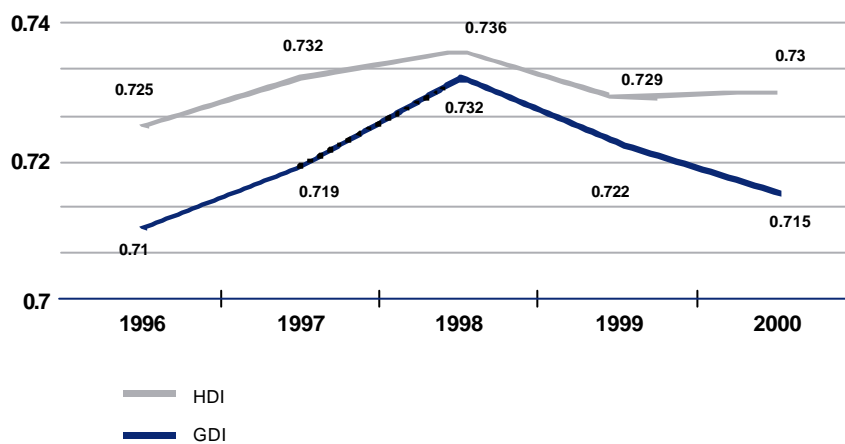
FIGURE 5 EI and equally distributed EI according to HDI and GDI



**FIGURE 6** Dynamics of the adjusted real GDP /according to HDI/ and equally distributed income index (according to GDI)



**FIGURE 7** Dynamics of HDI and GDI



### 3. Gender Empowerment Measure (GEM)<sup>6</sup>

Focusing on women's opportunities, rather than their capabilities, the GEM captures gender inequalities in political and economic relative participation and power over economic resources (estimated earned income). For each of the dimensions equally distributed equivalent percentage (EDEP) is calculated as a population-

weighted average. The GEM for 2000 evaluating women's and men's political and economic relative participation has slightly increased as compared with 1999 given the little positive shift in women's share in the positions of managers, administrators and senior officials as well as in the estimated earned income. It should be mentioned that in the near future it will be possible to calculate GEM more accurate based on the results of the envisioned surveys in the relevant fields.

FIGURE 8 The share of the GEM components

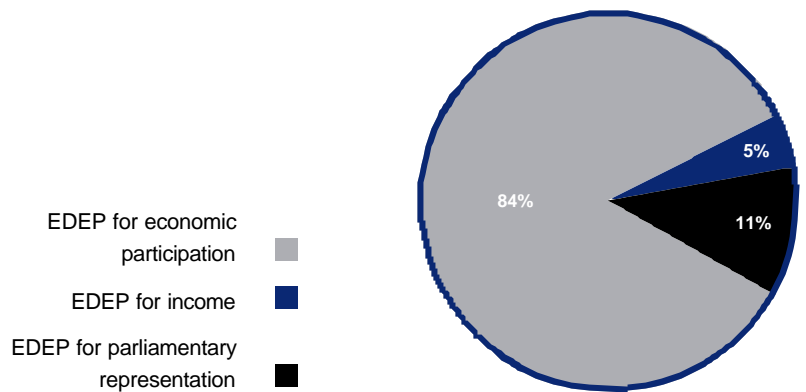
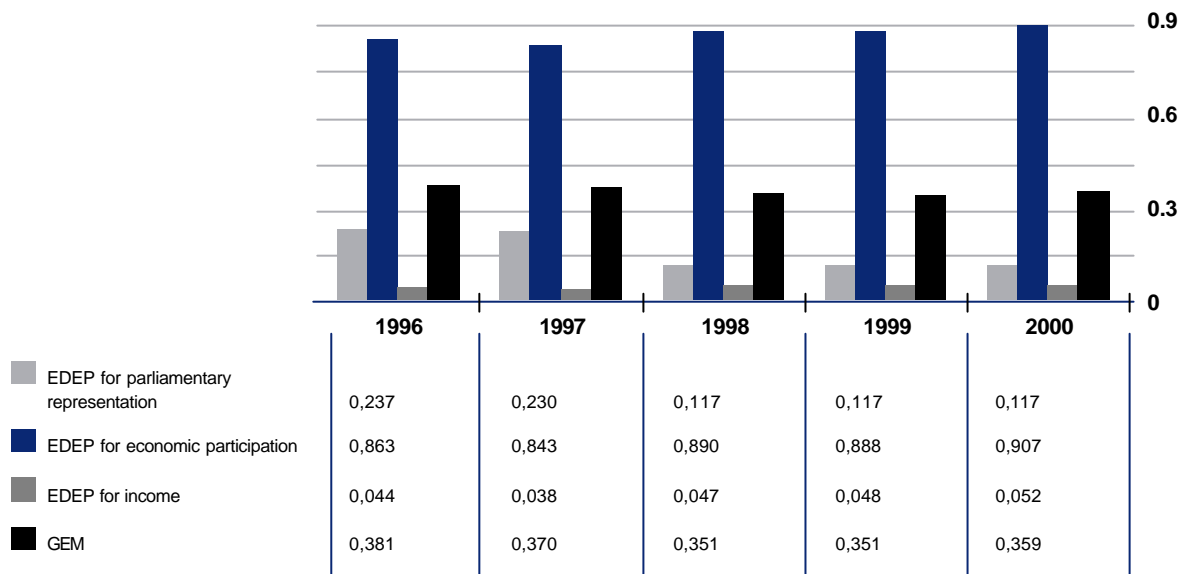


FIGURE 9 The dynamics of the GEM and its components for 1996-2000



#### 4. Human Poverty Index (HPI)

HPI for developing countries is calculated through

$$HPI-1 = [1/3 (P_1^3 + P_2^3 + P_3^3)]^{1/3}$$

displaying deprivations in HDI main components:

1. Life expectancy - P<sub>1</sub> - percentage of people not expected to survive to the age of 40
2. Knowledge - P<sub>2</sub>-exclusion from the world of reading and communication -the illiterate population of age 15 and above
3. Decent standard of living- P<sub>3</sub>- low living standard

conditioned by poor economic security, including average arithmetical of three varieties:  $[P_3=1/3(P_{31}+P_{32}+ P_{33})]$ , where

P<sub>31</sub> - the percentage of people lacking access to safe water;

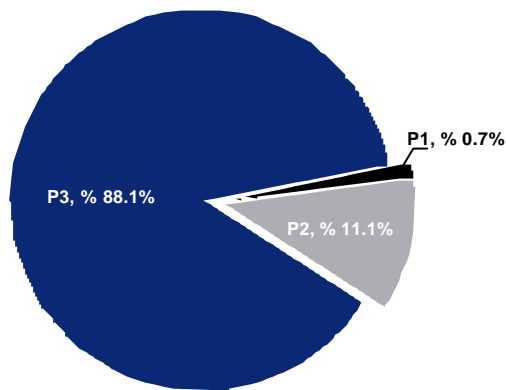
P<sub>32</sub> - the percentage of people lacking access to health services

P<sub>33</sub> - the percentage of children under five who are moderately or severely underweight.

Our previous calculations were based on experts' estimations. Recent observations resulted in certain adjustments in the initial calculations. Below we present the adjusted calculations of HPI-1:

	P <sub>1</sub> , %	P <sub>2</sub> , %	P <sub>31</sub> , %	P <sub>32</sub> , %	P <sub>33</sub> , %	P <sub>3</sub> , %	HPI-1
1996	0.11	1.2	11.9	21.9	2.9	12.23	8.48
1997	0.10	1.2	15.0	20.0	3.0	12.67	8.78
1998	0.09	1.2	14.0	19.5	4.0	12.50	8.67
1999	0.08	1.2	7.3	18.8	2.6	9.60	6.63
2000	0.08	1.2	7.2	18.7	2.6	9.50	6.59

FIGURE 10 The share of HPI-1 components, 2000



Experts believe that HPI would be more flexible and easy for calculation if the number of malnourished under five children comes to replace that of underweight under five children, currently in use, since the phenomenon of underweight, though typical only of certain regions, is calculated irregularly and causes problems for a large number of countries.

### 5. Technology Achievement Index (TAI)

TAI is a composite index designed to capture the performance of countries in creating and diffusing technology and in building a human skills base. The index measures achievement in four dimensions:

- ⌘ Technology creation, as measured by the number of patents granted to residents per capita and by receipts of royalties and license fees from abroad per capita.
- ⌘ Diffusion of recent innovations, as measured by the number of Internet hosts per capita and the share of high- and medium-technology exports in total goods exports.
- ⌘ Diffusion of old innovations, as measured by telephones (mainline and cellular) per capita and electricity consumption per capita.
- ⌘ Human skills, as measured by mean years of schooling in the population aged 15 and above and the gross tertiary science enrolment ratio.



For each of the indicators in these dimensions the observed minimum and maximum values (among all countries with data) are chosen as "goalposts".

Performance in each indicator is expressed as a value between 0 and 1 by applying the following general formula:

$$\text{Indicator index} = \frac{\text{Actual value} - \text{observed min value}}{\text{observed max value} - \text{observed min value}}$$

TABLE 3 Technology Achievement Index

TAI indicators	1999	2000
Patents granted to residents (per mln people)	0.198	0.162
Patent index	0.054	0.044
Royalties and license fees received (USD per 1000 people)*	139.9	144.6
Royalty and license fee index	0.513	0.530
1. Technology creation index	0.284	0.287
Internet hosts (per 1000 people)	16.1	17.1
Internet host index	0.069	0.074
High- and medium-technology exports (as % of total goods exports)	0	0**
2. Recent innovations index	0.035	0.037
Telephones (mainline and cellular, per 1000 people)	144.7	143.3
Telephony index	0.731	0.730
Electricity consumption (kilowatt-hours per capita)	1503	1657
Electricity index	0.734	0.750
3. Old innovations index	0.732	0.740
Mean years of schooling (age 15 and above)	10	10
Mean years of schooling index	0.821	0.821
Gross tertiary science enrolment ratio (age17-22)	0.153	0.146
Gross tertiary science enrolment index	0.547	0.531
4. Human skills index	0.684	0.676
5. Technology achievement index	0.434	0.435

## 6. Ecological factor as a component of HDI

Armenian scientists introduced the Sustainable Human Development Index (SHDI) in the NHDR 1995, Armenia (also presented at the International Conference on Sustainable Human Development of Countries with Economies in Transition, Minsk (16 - 18 April, 1997), Baku (May 1999), Bangkok (2001)). The calculation methodology is presented in Annex III, NHDR 1998.

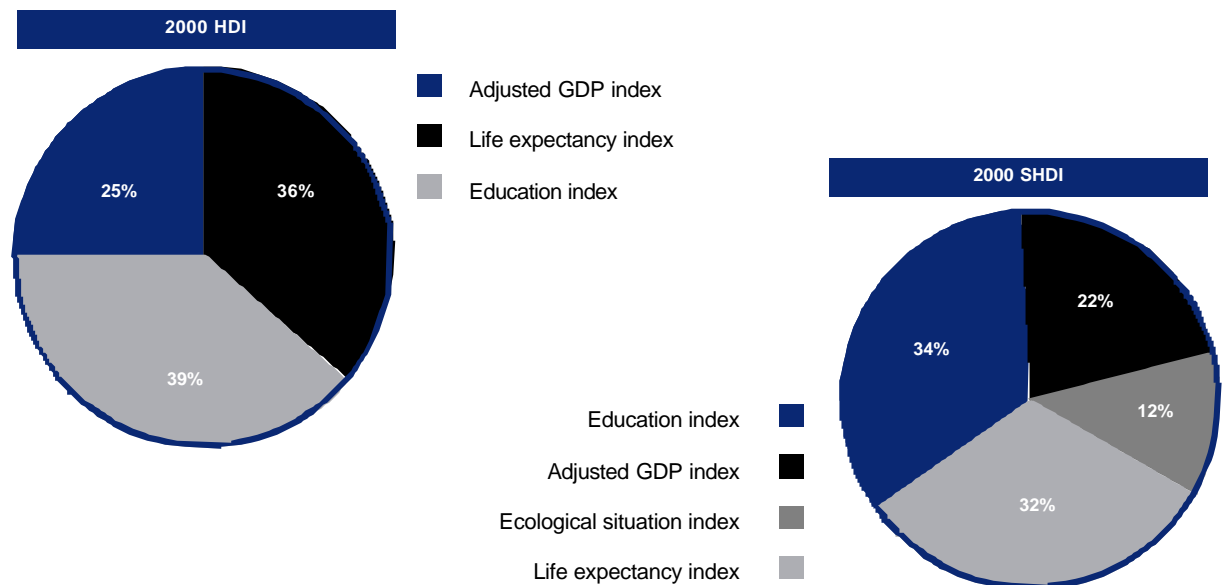
Each level of society's economic activity implies certain change in the environment (as a result of negative impact) and a system of measures aimed at securing and improving the natural environment. It is assumed that the integral indicator of natural environmental situa-

tion (A) and state policy in nature protection (B) may be observed as the fourth equal component of SHDI. In this case the components for SHDI are life expectancy index; adult literacy index; adjusted GDP index and the environmental situation index divided by four. SHDI for 2000 make up:

Country environmental situation indicator A= -0.303; economic activities' environmental indicator<sup>a</sup> B= -0.304 which sum up to make the integral coefficient of environmental change  $P_e = -0.303$ . SHDI dynamics is as follows:

	1990	1997	1998	1999	2000
$P_e$	-0.362	-0.292	-0.294	-0.301	-0.303
HDI	0.831	0.728	0.721	0.729	0.730
HSDI	0.533	0.475	0.479	0.472	0.472

FIGURE 11 Share of the components of human development indices for 2000



In addition NHDRs, which have been produced by almost 120 countries, introduce HDI new indices with special attention to this or that issue. For example:

- Human Deprivation Measure (Nepal 1999)
- Human Freedom Index (Tajikistan 2000)
- Human Governance Index (East Asia 1999)
- Human Security Index (Chile 1998)
- Index of Social Responsibility

- Indicators for Rights-based Development
- Quality of Life Index (Columbia)
- Social development index (India)
- Transmission Risk Index (Argentina)
- Vulnerability Index (Armenia 1995-1996)
- People's Participation Index (Botswana 1997)
- Human Vulnerability Index (Maldives 1998<sup>7</sup>).

# Some data and results of the expert survey "Pressing socioeconomic problems in the Republic of Armenia at the current stage of transition"



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Economic Research Institute of the RA Ministry of Finance & Economy undertook a task of compiling a systematized, comprehensive list of burning macroeconomic issues that the Government is confronted with at the current stage of transition. Several approaches to the listing of economic issues were used jointly, then the final list was drawn up on the basis of the preliminary lists, systematized and submitted as a comprehensive list in the format of a table containing 981 major issues (including 191 from the regions).

The goal of the expert survey "Pressing socioeconomic problems in the Republic of Armenia at the current stage

of transition" was to draw up a comprehensive list of socioeconomic issues that are important at this stage of the transition period in Armenia, to identify the priorities and to establish a computerized systematized databank for use in drawing up the development projects. The final section of the four in the questionnaire aimed at getting data about the experts and at breaking down the specialists into groups according to that data.

The survey sample included 107 experts split into two groups. The first was composed of 45 independent specialists, whereas the second group included those experts who spoke on behalf of their 62 organizations (Table 1).

**TABLE 1** The composition of respondents

Groups of specialists	Number of participants	Sample share (%)
1. Independent experts	45	42.1
2. Public administration	26	24.3
3. Banks	8	7.5
4. Enterprises	19	17.7
5. Social-political organizations	9	8.4
<b>Total</b>	<b>107</b>	<b>100</b>

The first three sections of the questionnaire presented the directions of the RoA economic development and about 160 consolidated (in a sense, aggregated) major issues, general as well as sector-specific ones. The experts were requested to make additions to the list and to rank the importance of each issue by assigning the following scores:

1 - to issues they believe are unimportant, 2 - to issues of certain importance, 3 - to issues deemed as important and 5 - as of paramount importance. Should an expert

feel he is not in a position to evaluate the issue, he was instructed to assign score of 6 to it. In order to evaluate the order of priority of the development directions, it was suggested to use another approach, viz. the principle of numbering in a sequential order (ranking).

In the questionnaire's first section "**Evaluation of priority of macroeconomic issues**" it was requested that the listed 13 macroeconomic issues be ranked according to their priority. The top three places were assigned (judging by the averages) to the:

1. formation of a democratic social system and of the rule of law (3.4 and 3.2 assigned, respectively, by the first and second groups),
2. development of the production sector of the economy (energy, industries, agriculture, etc.), restarting of idle enterprises and raising the competitiveness of the output (4.0, 3.7 and 4.4 respectively),
3. formation of free-market economic system, minimal State interference in economic activities (5.1, 6.0 and 4.3 respectively).

The bottom three places on the list of issues were assigned by the experts to the:

11. protection of domestic market against low-quality foreign goods, well-advised policies of protectionism for domestic producers (7.0, 7.3 and 6.8),
12. formation, advocacy and application of the national ideology, strengthening of the Armenia-Karabakh-Diaspora multi-dimensional relations (7.7, 7.0 and 8.4),
13. strengthening and broadening of ties with the developed countries and international organizations, implementation of active policies of economic integration, securing of loans on favorable terms and attracting foreign investments (7.8, 7.6 and 7.9).

From the perspective of the structural policies formulation, the experts' opinions about the priorities of the RoA economic sectors are very important. When ranked by their importance, out of 17 sectors (production branches,

services, science, etc. evaluated again in terms of the 5-score scale) the first place went to energy sector, the second place was assigned to agriculture, food industry and education and staff training shared the third and fourth places. The science sector took the next place that came close (in terms of evaluation of their importance) to the sectors mentioned last.

The evaluation results are of interest, first of all, because they are in glaring contradiction with the frequently voiced traditional opinions. The experts evaluated the prospects for the development of tourism in Armenia as low (the scores were 3.4, 3.1 and 3.6). In contrast to earlier times when machine-building industry was seen as a leading sector of the national economy, now the experts assigned the lowest scores to the significance of this sector (3.0, 2.6 and 3.3). The priority given to agriculture, food as well as construction materials industries are noteworthy (the latter was assigned 3.5 both by the entire sample and by separate groups), which, it seems, may be accounted for by the availability of local raw materials, if, certainly, the issues of making the output competitive and of finding the export markets are resolved.

The third section of the questionnaire, "**The issues existing in the RoA economic sectors and evaluation of their importance**", lists over 120 issues and requests that their importance be evaluated on a 5-score scale. The issues that occupy several top places represent the experts' generalized perception of the overall importance of the issues in a given sector (Table 2).

### The averaged values assigned by the experts to the importance of issues of the RA economic sectors

TABLE 2 (on a 5-score scale in order of diminishing importance)

Sectors	Values (in scores) of importance
State governance system	3.68
Taxes and budgetary policies	3.66
Economic policies	3.63
Environmental protection	3.63
Production sector	3.61
Social issues	3.57
Local self-government system	3.49
Monetary and loan policies and banking system	3.48
The field of foreign economic ties	3.26

In the experts' estimation (evaluations on a 5-score scale), in the perspective of the most important issues in individual sectors, for example, in the **State governance system** the following are the most important ones out of 13 issues listed in the questionnaire (figures put in the parenthesis represent the averaged values, in scores, given, respectively, by the entire sample, individual experts and organizations)

- identification and possible elimination of causes and factors of State officials' misdemeanor, bribery, corruption, misuse of their office and red tape (4.1, 3.8 and 4.4),
- further reforms of the judicial field, ensuring just judicial procedure, control and transparency, undelayed execution of verdicts, enhancement of respect to and confidence in court and law, punishability of violations of law anywhere but primarily in the judicial system (4.1, 3.8 and 4.3),
- establishment of the rule of law, adequate legal provision for all aspects of activities, implementation of the principle of supremacy of law everywhere and for everyone (4.0, 3.8 and 4.1).

Among the major issues in the **sector of taxes and budgetary policies** were the following:

- designing and carrying out measures of efficient struggle against bribery and abuse of the office in the budgetary, tax and customs systems (3.9, 3.5 and 4.1),
- ruling out unfounded changes in tax laws (3.9, 3.8 and 3.9),
- prompt execution of priority expenditure budget items of the State budget, introduction of responsibility for negative consequences of non-execution of other budget items (3.8, 3.7 and 4.0).

Among the **Economic policies**-related issues:

- determining the efficient size of and differentiating the tax burden for the purpose of ensuring the faster growth of the branches of strategic significance (4.0, 3.7 and 4.2),
- increase in investments, use of advanced technologies, innovational activities, application of mechanisms for stimulating foreign economic ties in the branches that have strategic significance (3.9, 3.9 and 3.8).

In the **Environmental protection** sector:

- the drawing up and on-going adjustment of well-tar-

geted comprehensive programs and implementation of urgent measures for the solution of the most important environmental issues (lake Sevan, soil erosion, land slides, recovery, etc.)(4.2, 3.9 and 4.5),

- efficient use of water resources, ensuring the restoration of the resources (4.0, 3.9 and 4.2),
- formulation and implementation of efficient policies for prospecting and productive use of mineral resources and for environmental protection (3.8, 3.8 and 3.8).

Out of 20 issues listed for the **Production sector**:

- provision by the State of incentives for foreign investments, creation of attractive environment for investments (4.1, 3.7 and 4.3),
- implementation of programs aimed at replacing exports and at meeting the domestic market needs with the goods produced in this country (3.9, 3.6 and 4.1),
- encouragement of small and medium-sized entrepreneurship (first of all in the Disaster area)(3.9, 3.7 and 4.0).

The following issues were distinguished as the most important in the **Social** sector:

- struggle against poverty, ensuring the minimum living conditions (minimum consumption basket)(4.3, 4.2 and 4.4),
- raising the living standards of the population, formation of middle class (3.9, 3.7 and 4.1),
- increasing the pension's size, promotion of voluntary forms of pension insurance (3.9, 3.8 and 3.9),
- restoration of young people's interest in education, science, high professional qualifications and learning (3.9, 3.8 and 3.9).

In the sector of **Local self-government** the following issues were identified as the most important ones:

- determining the optimal correlation between the State centralized and decentralized governance, clarification, legislative stipulation of and implementation guarantees for functions of local self-government (3.7, 3.5 and 3.9),
- identification, assessment and utilization programs elaboration of mineral resources and economic advantages of the regions and obtaining of funds for the implementation of those programs, in order of priority (3.7, 3.6 and 3.7).

The most important issues of the **Monetary and loan policies and banking system** are:

- development of capital market, increasing of financial resources, provision of incentives for domestic and foreign investments, creation of attractive environment for investments (3.8, 3.6 and 3.9),
- ensuring stability of the national currency, setting the correct exchange rate with core foreign currencies, justification and formation of necessary reserves, regulation of the money supply (3.7, 3.8 and 3.7),
- effective management of and regulatory restrictions on State debt, ensuring the optimal correlation between the growth of the external debt and the growth rate achieved with that money, correct selection and use of State bonds to be issued and of other sources of funding, transparency of information (3.7, 3.7 and 3.7).

And finally, in the field of **Foreign economic ties** the following most issues were recognized:

- application of efficient measures to promote the development of export-oriented productions and services, support to export and sales processes (3.8, 3.7 and 3.9),
- to identify and assess the absolute and relative advantages of the Republic of Armenia and the pos-

sibilities and ways for making use of them, to elaborate a State conceptual framework, policies and detailed programs for the expansion of foreign economic ties (3.7, 3.8 and 3.7),

- to formulate the State policies, current and long-term promising programs for the development of and support to tourism, to speed up the adoption of the package of laws on tourism (3.5, 3.3 and 3.7),
- to make the best possible use of the existing network of the national, cultural, special and entrepreneurial structures for dissemination in other countries of relevant information about the RoA economy, for obtaining relevant information, for expanding ties and for advocacy (3.5, 3.4 and 3.5).

It is apparent that this brief presentation of data can communicate only a general idea at best of the survey results. It is necessary to have a close look at the entire list of issues and at the evaluations of the importance of all the issues presented by the questionnaire and to analyze not only the data related to the entire sample or the two consolidated groups but also the data received from the responses of individuals and representatives of organizations.

**Economic Research Institute  
of the RA Ministry of Finance & Economy**

# Status of the Implementation of the Millennium Development Goals



ANN

The Millennium Summit, the biggest event ever conducted by the United Nations reiterated the commitments, goals and targets that have been raised and set at previous UN Global Conferences, placing priority on the reduction of poverty by one-half by 2015 as the main challenge for the whole world.

In response to a suggestion from UN Resident Coordinator and UNDP Resident Representative, Armenia has prepared a Progress Report on the Millennium Development Goals. Information and analysis were pro-

vided by the Human Development Experts Club, using background papers prepared by the UN Country Office in consultation with relevant bodies and the Government. (HD Expert Club comprises all authors who have contributed to National Human Development Reports Armenia since 1995). The statistics presented here are official. Expert calculations are given in brackets. The goals and targets presented and covered in the Report have been selected to mark progress made toward achieving the Millennium Goals worldwide.

GOALS	INDICATORS	1990	2000	2015
<b>Gender Equality</b> Eliminate disparity in primary education Eliminate disparity in secondary education	The ratio of girls to boys (%)			
	Primary education Secondary education	103.4 102.5	96.2 106.1	100 (2005)
<b>HIV/AIDS</b>	People living with HIV/AIDS	Three cases 1988 -1995	135 (81% is 20-39 years), 75% male and 25% female (reported) 1500 (estimated)	N/A
<b>Infant and child mortality</b> Reduce infant mortality rates by two-thirds  Reduce under five mortality rate by two-thirds	Child mortality, up to one year (per 1000 live births)	22-24	14-15 (1999)	12-13
	Under 5 mortality rate (per 1000 live birth)	23.8 29.3-WHO	19.2 (1999) National target for 2000 15.9 (official); 19.6 (WHO)	8  10 (WHO)



Goals	Indicators	1990	2000	2015
<b>Maternal Mortality</b> Reduce maternal mortality ratios by three-quarters	Maternal mortality (per 100,000 births)	40.1	35.6 (1999)	10
<b>Basic amenities</b> Halve the proportion of people without access to safe water	Proportion of population with sustainable access to safe drinking water (%)	81.7	86.0	91.0
<b>Universal Education</b> Enroll all children in primary school Achieve universal completion of primary schooling	Net primary enrollment rate (%)	95.2	81.6 (2000)	100
<b>Extreme income poverty</b> Halve the proportion of people living in extreme poverty	Number of population included in the national system of family allowance (SFA); including proportion of families in SFA (%)	1998/99 884.400  27.2	773.000  24	
<b>Hunger</b> Halve the proportion of people suffering from hunger	Proportion of population below minimum level of dietary energy consumption, 2100 Kcal (%)	1996 27.7	1998/99 22.9	10-12 (half of 98/99)
<b>Environment</b> Implement national strategies for SD by 2005 to reverse the loss of environmental resources by 2015	Development and implementation of a national strategy for sustainable development	No	No	Yes

The Millennium goals selected for developing countries are not fully adequate to evaluate the developments in the country. Where access to universal education or gender equality are concerned, Armenia has achieved these goals. In regard to the level of child and maternal mortality, and access to safe drinking water, Armenia's indicators fell short of those of developed countries. However they are quite satisfactory as compared with the majority of countries. In this case, in line with the Millennium Development Goals, the Report has tried to take a wider view and has indicated at least two goals that are more immediate and more relevant to Armenia.

With its shift to a market-oriented economy and the disappearance of relatively high living standards and social guarantees, Armenia is no exception. The inspiration and hopes raised by this process seem to have dissipated. The country is in need of a new approach to its development. It requires one that is more human-oriented and human-centered. This is something that, due to objective and subjective circumstances, has been largely neglected during the years of transition. At the same time, perhaps the time is ripe to state that the overall process of reforms lasting for 10 years has yet failed to translate into the population's well-being.

Armenia enters the 21st century burdened with many problems that it shares with developing countries with mid and even low level human development. In order to make a leap, Armenia has to, as we see it, concentrate on social cohesion, which has to envelope economic

reforms, guide them and be a means for prosperity. It is important that an atmosphere of benevolence and real reciprocity, especially towards socially vulnerable groups, the elderly, and families in need, be established and prevail in society. We would also like to build on the principles guided by International Development Goals and especially the Millennium Summit from the viewpoint of development, particularly using the available resources - we human beings, our relations and commitment and natural desire to live better, in a better world.

We believe that, along with economic development, rule of law, and democracy, equal weight should be given to the genuine motivation for development, clear cut goals at different levels, stable and fair rules of the game, harmonious relations in society between the elite and those in power, between financial and intellectual groups and the population at large, thrifty consumption habits, equal distribution of the positive results of development through synergy, enhanced opportunities both in regard to income, but also access to health and education, and protection of the environment. We are convinced that to achieve tangible results in human development, it is necessary that in the near future the efforts of the government, civil society and donors be focused on bringing to life the above-mentioned goals.

Hence, in Armenia we find it expedient to revise the ongoing reforms and prioritize the social, moral and value aspects of these undertakings.

# 10

Years  
of Independence  
and Transition  
in Armenia



National  
Human  
Development  
Report

Armenia 2001

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