

Enhancing the Role of the Diaspora in Promoting Armenia's Sustainable Development

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Abstract: Due to internal and external factors, synergies between Armenia and its diaspora have not been working effectively. The purpose of this research project is to identify ways whereby Armenia could best take advantage of the potential of its Diaspora to contribute to its development. The project identifies areas where the Diaspora has so far made positive as well as negative contributions to the country's development and others where opportunities have been missed. In particular, the project looks at domestic and external hurdles, considers the need for improved institutions and communication channels to facilitate the process, suggests a development agenda where the diaspora can contribute, and propose a framework for ensuring a harmonious synergy between Armenia and its diaspora.

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Acronyms

AGBU – Armenian General Benevolent Union,
AIPRG – Armenian International Policy Research Group
ARF – Armenian Revolutionary Federation Party,
AMD – Armenian dram – national currency,
BoP – Balance of Payments,
DCID – Duke Center for International Development
DQI – Discourse Quality Index,
EU – European Union,
FAO – Food and Agriculture Organization of the United Nations,
GDP – gross domestic product,
GoA – Government of Armenia
Mln - Million
MCA – Millennium Challenge Account,
MTEF – Medium-Term Expenditure Framework
NA – National Assembly of Armenia
NKR – Republic of Nagorno-Karabakh,
NSS – National Statistical Service of Armenia
OSCE – Organization for Security and Cooperation in Europe
PFA – Policy Forum of Armenia
PRSP – Poverty Reduction Strategy Paper
UAF – United Armenian Fund,
USA – United States of America,
USD – United States dollar,
USAID – United States Agency for International Development

Executive Summary

Armenia has a wealthy and worldwide diaspora organized around centuries old institutions and capable of mobilizing large resources. However, due to internal and external factors, synergies between the newly independent Armenia and its diaspora have not developed to the extent necessary to ensure that the diaspora's assistance efficiently addresses the sustainable development challenges confronting Armenia. The sustainable development agenda in the Armenian context assumes creation of the domestic capacity and fostering Armenia's integration into the international economy, which would generate reliable resources to support Armenia's future development. It also assumes securing a durable peace in the region and ensuring stability in the country.

Based on the experience of the last two decades, this paper argues that the diaspora assistance, while providing major benefits to the country, has missed so far opportunities to find effective ways to deal with the above challenges. It focused on the needs requiring immediate responses, such as contributing to the post-conflict infrastructure rehabilitation, eliminating of the consequences of natural disasters and mitigating the risks of social unrest. At the same time, the diaspora's assistance did not fully appreciate the need for creating solid foundations for Armenia's long-term development, in particular the expansion of opportunities to generate sustainable sources of economic growth, accompanied with job creation and income generation.

This paper therefore provides recommendations on how the dialogue with the diaspora and the home country can be improved in terms of process, institutional arrangements and policy design to better utilize the diaspora's potential for the benefit of Armenia's population. In particular, the paper recommends that the home country should take the lead role in guiding the diaspora's support towards Armenia's development agenda.

Introduction

Definitions

Diaspora: The *Diaspora: A Journal of Transnational Studies* defines the term diaspora as the condition of a geographically dispersed people who had settled in different political entities but who maintained, in spite of this dispersion, some form of unity and solidarity.² Several other terms are used, such as ethnic migrants, expatriates, exiles, refugees, etc. which however do not fully convey the meaning attached to the term diaspora³. As per the above definition, any diaspora has a hybrid identity, preserving distinctive features of ethnic identity while belonging to a local community. Thus, a diaspora is an important knot in the triangle of relationships between a home-country⁴ and a host-country.⁵ The interaction between the diaspora and its former home-country nation can lead to the formation of a transnational community. A diaspora has also multiple affiliations, such as a) independence to act on its own behalf, b) heterogeneity in terms of social belonging and diversity of visions regarding the solutions for particular problems, and c) capacity to capture leadership “power” in transnational institutions.

Sustainable development: In the Armenian context, the concept of sustainable development includes the following main elements: a) creating capacities and opportunities for ensuring the long-term development of the home country b) securing a durable peace in the Armenian neighborhood, and c) achieving democratic stability in the country.

This paper will mostly elaborate on the first component of the sustainable development as per the above definition, leaving the other two for a separate study. It will first reflect on the major role played by the Armenian diaspora throughout the last two decades, identify

² Diaspora: A Journal of Transnational Studies, Volume 8, Number 3, Winter 1999, <http://www.utpjournals.com/diaspora/diaspora83.html>

³ These terms fail to convey the sense of common identity or to allude to the organizational and institutional features characteristic of a diaspora.

⁴ Also known as a country of origin, recipient country or a kin-state.

⁵ Also called a donor country or a country of settlement.

shortcomings and lost opportunities, and then will define the policy problem to which this paper is addressed. Based on the analysis of the scope and magnitude of threats and challenges, the paper will suggest a number of changes to the current relationship between the diaspora and the homeland. The paper will then provide recommendations and practical steps towards implementation of the proposed strategy together with expected outcomes.

Background

Due to historical reasons, throughout the last century the number of Armenians living outside the home country has significantly exceeded the population permanently living in Armenia⁶. The geographic dispersion of the population into a diaspora has been evolving overtime, though, currently the major diaspora centers are in Russia, the USA, France, Iran, the Middle East and in Georgia where the community life is well organized and ethnic identities are maintained relatively easily.

Scope and directions of the assistance provided by the diaspora: What role is played by the diaspora in the Armenian reality and what are the major channels through which the diaspora provides assistance to Armenia? The most visible, yet not the only assistance provided by the diaspora to Armenia, has a *philanthropic* character. It has mostly been a response to emergency situations (the devastating earthquake of 1988, droughts), or it has aimed at closing the country's poverty gap by improving its access to basic social services, including the repair of education and health institutions. The Lincy Foundation alone donated more than 200 mln USD for road construction and repair programs throughout Armenia. Income and current transfers by the diaspora accounted for 25% of Armenia's GDP in recent years, while remittances constituted to about 12% of an average household income in Armenia in 2006 (see attachment 1). The assistance flows in through multiple channels and is diffused among different implementing agencies, which is why it is hard

⁶ There are no exact statistics. However, according to some estimates, there are about 5-6 million Armenians around the world, while the total population of Armenia is only 3.2 million (2001 October Census Results, NSS).

to assess the aggregate impact of diaspora assistance. Nevertheless, there is no doubt that the diaspora's assistance has made a major contribution to poverty reduction and post conflict infrastructure rehabilitation in Armenia.

Diaspora institutions: The Armenian Church through its branches abroad, is the oldest diasporic institution. It plays various roles in the transnational environment, including mobilization of humanitarian assistance and coordination of charitable activities. It works through its own channels.

The Armenian General Benevolent Union (AGBU) is one of the largest single philanthropic institutions with an admirable history going back to the early 1900s.

After the earthquake of 1988, most of the philanthropic organizations operating in the US integrated their efforts by creating the United Armenian Fund (UAF)⁷, which provided about half a billion USD in humanitarian assistance to Armenia since its inception in 1989.

There are also three major traditional diaspora-based political parties⁸, which along with their political agenda are intensively involved in philanthropy and charitable activities.

The All Armenia Fund is another big fundraiser for social and physical infrastructure rehabilitation. This is primarily an Armenia-based, quasi-public organization with branches in about 32 countries. Donations primarily from the diaspora to the All Armenia Fund throughout its 15 years of existence have exceeded 165 million USD at the end of 2006.

Advocacy: Besides drawing on its own resources, the Armenian diaspora has been very successful in generating other assistance from their host countries or by international organizations. Thus, along with the Jewish lobby, the Armenian lobby in the US has been

⁷ The UAF includes the [Armenian Assembly of America](#), the [Armenian General Benevolent Union](#), the [Armenian Missionary Association of America](#), the [Armenian Relief Society](#), the [Diocese of the Armenian Church of America](#), the [Prelacy of the Armenian Apostolic Church of America](#) and the [Lincy Foundation](#).

⁸ Armenian Revolutionary Federation (Dashnaktzutiun) ARF Party, Social Democrat (Hnchak) party and Rural Liberal (Ramgavar) Party.

very successful in influencing foreign aid allocations in favor of their home country. Thus, for the entire decade of the mid-1990s through 2005, Armenia was the second largest recipient of per capita aid provided by the US government.⁹

Participation in the regional conflict: In the context of the regional conflict, the diaspora's assistance to Armenia and Nagorno-Karabakh has been invaluable in terms of moral, human and material support. In fact, with its international influence, the Armenian diaspora has been able to counter-balance Azerbaijan's oil resource as a potential dominant factor in the international negotiation process for resolution of the Nagorno-Karabakh conflict. Moreover, lobbying by the Armenian-American diaspora organizations succeeded in suspending American foreign assistance to Azerbaijan for the entire decade of 1992-2002 (Section 907 of the Freedom Support Act).¹⁰

Diaspora participation in the political system of Armenia: The diaspora, through the branches of its political parties, printed media and support provided to the domestic parties, actively participates in the political developments and shaping of the public opinion in Armenia. Moreover, it is one of the stakeholders in the home-country's institutional structures of power sharing arrangements. The Armenian Revolutionary Federation (ARF or Dashnak)¹¹ party, one of the influential pan-Armenian political parties, has been represented in the National Assembly of Armenia since 1999 and has been part of the Coalition Government since 2003. Thus, the diaspora is not only influenced by domestic politics, but it also affects the home country's domestic and foreign policies through its actual presence on the political ground of Armenia.

History of the recent relationships between Armenia and its diaspora: The first generation of Armenian leadership¹² took a very strong position regarding the diaspora's participation in the political dynamics of Armenia. It practically neutralized the diaspora's engagement in the national politics by arresting its leaders in 1994 and

⁹ Michael Dobbs, "Foreign Aid Shrinks but Not for All" Washington Post, 24 January 2001.

¹⁰ Shain Yossi; "The Role of Diasporas in Conflict Perpetuation or Conflict Resolution," SAIS Review, vol XXII no 2.

¹¹ Armenian Revolutionary Federation party, established in 1890 in Tbilisi, Georgia.

¹² Covers the 1991-1997 period of the Presidency of Levon Ter-Petrosyan.

prohibiting operations of the largest and most powerful diaspora-governed Dashnak party in Armenia. Thereafter, the second-generation of political leadership¹³ went to the other extreme. From the very beginning, it declared the unity of the home country and its diaspora, stating that the country's domestic and foreign policy as well as conflict negotiation issues require joint efforts. The Dashnak party was rehabilitated in 1998, which soon restored its popularity in Armenia. The law on dual citizenship was approved in 2007 securing property rights for diaspora Armenians, permitting visa-free entry to the home country and granting voting rights to the diaspora though requiring physical presence in Armenia.

Most of the scholarly literature assesses the diaspora's role in providing financial or philanthropic assistance, and estimates the impact of the remittances on the Armenian economy. Usually, these studies conclude that the experience of the Armenia-diaspora relationships is unsatisfactory¹⁴ because it falls short of creating business linkages¹⁵ and more sustainable sources of development. Other studies analyze the evolution of diaspora institutions,¹⁶ their role in helping to address internal transition challenges,¹⁷ and their participation in the resolution of the regional conflict.¹⁸ Here the assessment is mixed, with some authors truly recognizing the positive role played by the diaspora in achieving the current outcome of the regional conflict¹⁹, while others basically emphasize that the diaspora is going beyond its mandate.²⁰ However, there is no comprehensive study examining all of the vast contributions made by the Armenian diaspora to its home country. Most studies are focusing only on a particular segment of the inter-relationship, thus missing the overall picture and failing to provide a fair assessment. Thus, a comprehensive assessment is needed to provide basis for identifying imbalances, suggesting potential opportunities for reallocation of diaspora resources, and achieving a shared understanding about national interests/security issues and development priorities.

¹³ Covers Robert Kocharyan's presidential terms over the February 1998 - February 2008 decade

¹⁴ Roberts, Brian (2001), Manasaryan, Tatoul (2004), Grigoryan, David (2008),

¹⁵ Kuznetsov, (2006, 2007)

¹⁶ Toloyan (2007)

¹⁷ Freinkman, Lev (2001)

¹⁸ Shain (2002)

¹⁹ Tololyan (2007)

²⁰ Shain (2002)

The purpose of this paper

There are at least two major reasons why improvements of the diaspora-home country relationships should be at the center of the public policy agenda in Armenia. First, Armenia is a resource-poor, landlocked country in transition. Its most valuable resource is its diaspora with its established and potentially available human, physical and social capital. Thus, any development scenario for Armenia aimed to achieve successful outcomes in today's fast growing global economy, should rely on the diaspora's resources, knowledge, skills and networks. Second, given the existing complex spectrum of relationships between Armenia and its diaspora, the inherent capacity of the diaspora to act independently, and its social and geographic heterogeneity, ensuring a more efficient and purposeful coordination and guidance of diaspora activities becomes an extremely important factor for Armenia's current and future prosperity.

For the above reasons, this paper aims to propose a roadmap of actions by the public policy makers for the improvement of the diaspora-Armenia relationship, based on a re-assessment of the roles the diaspora can play in Armenia's development context. The paper suggests that the diaspora can become an instrumental resource fostering Armenia's development and integration in the international economy.

Scope and severity of the policy problem

Significance of the problem

The current development challenges confronting Armenia are many. On the one hand, Armenia needs to address the domestic issues of a) creating an enabling environment and developing comparative advantages to reach-out global markets, and b) strengthening

domestic institutions able to prepare and adopt sound public policies. On the other hand, Armenia needs to ensure a stable and secure regional environment to reduce the transportation costs for its foreign trade and obtain faster access to external markets.

To what extent does the status of its current relationships with the diaspora help Armenia to tackle the above development challenges?

- First, although the **philanthropic nature** of the diaspora's assistance helps to mitigate social tensions, it also creates a dependency syndrome, moral hazard and concerns of long-term sustainability. For instance, growing foreign currency inflows put pressure on the national currency and appreciate it vis-à-vis the currencies of trading partners. This negatively affects the export performance of Armenia. At the same time, with its higher marginal propensity to consume imported goods, Armenia is an example of a country experiencing a deterioration of its terms of trade as a result of increasing transfers from abroad.
- Next, **diaspora-based political organizations** ensure political pluralism and bring additional skills in the political landscape of Armenia. However, they also introduce a certain risk element, which may cause political destabilization by increasing further the competitiveness in the political environment. In some cases, they carry over diasporic rivalries between different parties into the home-country political space, which increases further risks. Thus, it is not clear whether direct participation in power sharing arrangements and increased competition for capturing the political power in the home country is the best mode for the diaspora to contribute to the development of democracy in the home country.
- Finally, it is clear that the **regional conflict** played a major mobilization and consolidation role, by uniting the nation around the single objective of preserving Nagorno Karabakh.

The extent to which it will be possible to achieve a national consensus on the above essentially important issues, will determine the scope and sustainability of Armenia's overall development.

Policy Problem Statement

Definition of the problem

The policy problem lays in Armenia's inability so far to derive the full potential benefits from its diaspora. The causes of the problem have their roots in the diaspora as well as in the home country.

a) **Constraints related to the diaspora:** In the socio-economic field, the diaspora's primary focus on philanthropy is explained largely by the traditional nature of its institutions. Unlike the Jewish community, the Armenian diaspora did not organize and prepare for the advent of an independent home country, which whom it would engage in a partnership, and thus limited its focus to philanthropic needs. The inability of Diaspora organizations to adjust their objectives and functions to the new policy environment of post-independent Armenia led to missed opportunities in establishing business ties and partnership networks that would have facilitated Armenia's faster integration into the global economy e.g. through the development of high value added knowledge-based products and services.

Second, although the heterogeneity of the diaspora constitutes a wealth of competence, it also makes it difficult for the diaspora to identify common strategies and ways to engage with the home country. Here is where the socio-cultural and political impacts of host countries on the diaspora become a constraining factor, which cannot be overcome unless the diaspora and Armenia establish mutual trust with each other.

Third, another cause of the problem originates from the mismatch between the various images about the home country that have developed over time among the diaspora and the reality in Armenia, and how such virtual notional images may lead to different concepts and aspirations regarding Armenia's relationship with its neighbors.

b) **Constraints related to the home country:** From the home country side, one of the causes of the problem has been the inability of the Armenian authorities to create

effective institutions to facilitate and provide guidance to the diaspora regarding its assistance. On the government's part, despite all the notable work done over the last fifteen years by the All Armenia fund, it has not been able to become an umbrella organization galvanizing the different types of assistance needed by the country. Regarding the domestic private sector, it too failed to generate the space needed for collaborating with the diaspora. The small size of the domestic market and the unhealthy competitive environment in Armenia prohibit the diaspora to enter the market.

A second domestic cause of the problem relates to the shortcomings of the enabling policy environment. As the 2007 EBRD Transition Report indicates, despite improvements in financial regulation and consolidation of the supervisory bodies, the overall investment promotion environment is still discouraging and administrative barriers to market entry retard the country's competitiveness.²¹ In addition, Armenia suffers from a weak tax collection effort and a selective treatment of taxpayers²².

Other factors causing the persistence of the policy problem include:

- a weak institutional framework to facilitate the policy dialogue with the diaspora;
- a failure to improve the quality of the political discourse in Armenia;
- inappropriate accountability mechanisms to ensure the efficiency of the assistance received;
- disincentives for accelerating public sector reforms to improve service delivery,
- a primary focus on financing the consumption rather than making investment decisions,
- an imbalanced sectoral development in Armenia because of the concentration of remittances on funding construction activities.

Major Stakeholders

²¹ EBRD Transition Report 2007,

²² The tax to GDP ration is around 15 percent

Diaspora – during the seventy years of the Soviet era, it was alienated from the home country, which created major obstacles for communication and mutual understanding after the collapse of the Socialist system. The diaspora acts independently, as long as both the host country's and home country's legislations are not violated. It serves as a non-official ambassador of the home country in the host country and provides a bridge between the host country and Armenia. It is influenced by both the host country's and the home country's politics

Armenia (the home country) is not only the beneficiary of diaspora assistance, but also is obliged to accommodate the diaspora's position on policy choices and thus is the one bearing the political consequences. This dependency is limiting the home country's political freedom, as it often feels obliged to verify the acceptability to the diaspora of its policy programs. However, the perception of the diaspora in the home-country is not homogeneous across social layers. Thus, while political and business elites tend to regard the diaspora as potential competitors to their respective dominant powers, the general public appreciates the potential job opportunities, social assistance and other benefits offered by the diaspora.

Host countries –the degree of diaspora influence on the host country politics varies depending on the host country's democratic processes. Although by legislation the Armenian community is represented in political institutions (Parliament, Government) in several countries of the Middle-East (such as in Lebanon, Iran and Syria), in general terms it has excluded itself from active political participation in these countries. By contrast, the Armenian-American diaspora is an active participant not only in the political life of the host country (Presidential and congressional campaigns, etc.) but also to a considerable extent influences the US foreign policy with regard to Armenia and its neighbors. One of the most recent examples demonstrating this impact is the pressure made by the diaspora organizations on the Congressional Committee of Foreign Affairs,

which, in October of 2007 approved a resolution recognizing the Armenian Genocide committed by Ottoman Turkey in the early 20-th century²³.

Diaspora maintains dynamic relationships with a range of **international organizations**. These include United Nations and European organizations either actively supporting regional development programs or involved in the official international brokerage of the regional conflict resolution process.

Goals and Objectives

Because, overtime, the sustainability of the diaspora is undermined by assimilation of its members to host countries or by their becoming identified with more cosmopolitan values, now is an opportunity time for Armenia to find ways to make the most of its diaspora's resources. To that intent, it is proposed to review and draw the lessons from other countries' experiences.

Potential solutions

The international experience offers a number of success stories of nations, which faced similar development challenges, and were able to successfully address them in partnership with their respective diasporas. As a general rule, in the successful cases, the home country and the diaspora coalesced around national priorities and hold a shared vision of the nation's future development with the help of few but effective institutions.

²³ News Voice of America, Washington, October 10, 2007, <http://www.voanews.com/english/archive/2007-10/2007-10-10-voa50.cfm?renderforprint=1&pageid=393539>

Box 1: Cross-country experiences in utilizing the diaspora's potential

Israel – This is the most relevant experience for Armenia, as its citizens had lost their statehood for centuries, and as the country is involved in territorial conflict. Israel also faced nation-building challenges decades ago, and its rich and influential diaspora played a crucial role in guiding its home country towards development and integration into the international economy. However, despite the overall positive assessment of the Jewish diaspora's role in the home-country's economic recovery, opinions diverge about its role in the regional conflict resolution/perpetuation.

South Korea - On both the economic and political fronts, it achieved notable successes. It created an Overseas Koreans Foundation under its Ministry of Foreign Affairs and Trade. In addition to liaising with the diaspora on a routine basis, the Foundation holds an annual World Korean Business Convention, which makes substantial impact by creating business linkages and promoting the country's exports. (<http://www.okf.or.kr/eng/index.html>).

Taiwan and China – Both show how family-ties based diaspora networks can provide assistance to the home country, when members of a family become responsible for the production, distribution and realization of a united value chain. The business partnerships between the Chinese diaspora and its home country supported by family members, became an extremely important factor for the rapid expansion of Chinese exports of goods and services.

UNDP's TOKTEN system of mobilizing ex-patriate assistance to close the capacity gap in the home country is a working example of how different resources can be utilized to assist the home country <http://www.toktenlebanon.org/missions/>

Mexico – The Mexican model of Home-Town Associations (HTA) is an example of effective partnership not only between the diaspora and its original home-settlement, but also between the diaspora and different levels of the home country's governments. Under the popular 3 to 1 formula, for each dollar (peso) invested by the HTA, the local, regional and central governments each provide matching funds of another one.

Measures of Effectiveness

How one can assess whether the assistance provided by diaspora or its participation in institutional capacity building is more effective. The following are suggested indicators for measuring the impact of the diaspora's input on different fields of the home country:

- Improvements in domestic political institutions can be measured by the discourse quality index (DQI), political freedom index, and the corruption perception index.
- Improvements of public policies can be assessed by the global competitiveness index, government effectiveness index, regulatory quality indexes, economic freedom index, openness index (foreign trade to GDP), etc.
- Sustainability of the assistance can be assessed by comparing the real GDP growth with the growth of remittances, the share of remittances in the household's overall income, the regional concentration/de-concentration of provided assistance, etc.

Policy Alternatives

Description of alternatives

For Armenia to take advantage of its diaspora, the following alternatives can be considered:

1. Status quo – Continuation of the current structure of diaspora participation in home country affairs does not seem sustainable.

First, the advocacy, which benefited Armenia in the 1990s, is no longer yielding similar benefits in the new century in part due to the decline of US assistance²⁴. The role of advocacy in the context of the regional conflict is also declining, because of host

²⁴ The USAID assistance is halted in 2000s as compared with the average in 1

countries' evolving regional interests and neighboring countries' diversification of response strategies through their establishment of alliances with other diasporas .²⁵

Second, although the Armenian economy demonstrated high growth rates in the last decade, it was dwarfed by a much higher acceleration of current inflows from abroad, substantially exceeding the real economic growth and the country's rate of export expansion (Attachment 2). Hence, between 1998 and 2006 in real terms the country's output has doubled, exports have quadrupled but for the same period the inflow of income and private transfers has increased by more than 7 times. Despite the remarkable increase in the export volumes in the last 8 years, the country's export concentration ratio remains high and the export performance is dependent on a few items, with polished diamonds and jewelry, extracted metals and liquors/wine exports accounting for more than 70 percent of the country's total export (see attachment 3). Little has been done to utilize the diaspora networks to diversify the country's exports. Furthermore, the high share of current transfers (as opposed to direct investments) in total transfers is accompanied by little technical assistance and capacity building and therefore, does not promise any spillover effects on the economy in the future (see the attachment 1). In addition, uneven allocation of private transfers from abroad deepens already existing regional disparities in Armenia. As household surveys indicate, although improved since 1999, the gap between Yerevan and the rest of the country is still notable even in the absorption of income-assistance received from abroad (see attachment 4).

Third is the question of internal democracy and political stability. Armenia does not suffer from a deficit of political pluralism and diversity of political perspectives.²⁶ What it really needs is to improve the quality of the domestic political dialogue. Unfortunately, the current priorities for diaspora participation in political developments in Armenia tend to increase competition rather than deliberation among the political actors.

²⁵ For instance, Azerbaijan's cooperation with the Jewish diaspora in the USA, to counter-balance the Armenian lobby (Shain, 2002).

²⁶ There are 34 active political parties in Armenia.

2. Selective/partial improvements – This would involve e.g. changing the nature of the socio-economic assistance provided by diaspora by targeting specific sectors. The recent attempt by the Diaspora Conference to prioritize the rural development agenda in Armenia and to channel the assistance to this field is unlikely to be a major engine for future growth. Rather, its importance is primary to mitigate social/regional disparities caused by economic transition. Neither will the elite-housing type of investments supported by the diaspora have a major impact for the country's development, although one may still argue that nevertheless it should have some trickle-down effect on the economy.

3. Re-vision of the diaspora's role in responding to Armenia's developmental challenges – This scenario proposes a new vision for the diaspora-home country relationship aimed at jointly fostering Armenia's development. Armenia is not abundant with natural resources. Its human capital has eroded substantially during the last two decades. Likewise, there is a capacity gap and inefficiencies in institutional performance. Despite all of the above limitations, the country needs to define its comparative advantages, as basis for a strategy to meet its development objectives. Thus, the diaspora can be viewed as Armenia's comparative advantage resource, considering its relative abundance in the transnational space. And therefore, as an extension of economic theory, one could claim, that in order to be effective in addressing its development agenda in the global context, Armenia needs to materialize its comparative advantage and make intensive use of its diaspora resources.²⁷

However, let's add that such use should also be selective: we do not suggest here that diaspora network institutions should substitute for the roles or functions presently performed by the home country institutions. Instead, what I have in mind is drawing on them to strengthen local institutions by building capacities and cultivating new management skills using techniques such as the UN's TOKTEN system and other methods of institutional capacity building. One particularly important contribution can be

²⁷ In essence, this is a stretched version of the Heckscher-Ohlin-Samuelson theorem used in the trade theory, which claims that *a country will benefit more from international trade if it tends to have a comparative advantage in the good that uses intensively its relatively abundant production factor.*

made by those communities of the Armenian diaspora, that are located in the US and European societies, where they are enjoying democratic traditions delivered by advanced political systems, and from which they may find ways to help Armenia to comply with higher democratic standards.

Comparison of future consequences

1. Status quo: This scenario is likely to lead to a dependency trap in Armenia and pose persistent risks of regional and political polarization and may even become a source of destabilization in the country. To some extent it may also create disincentives for the Armenian authorities to accelerate reforms in the country, particularly to create more conducive environment for the private sector to create jobs and increase the average wage.

2. Selective improvements: Partial improvements in the provision of assistance are likely to have only a limited development impact, therefore the country will not be able to achieve its long-term development objectives with this strategy.

3. Comprehensive approach: Re-consideration of the country's development perspectives in the complex context of improved domestic politics is the most attractive alternative and likely to have positive consequences for Armenia and its diaspora.

Spillovers and externalities

If peace is secured in the regional, Armenia's sustainable development will have multiple spillover effects on the entire South Caucasus region. It will enlarge the regional market and foster international integration processes. Investments in different pieces of

infrastructure too will help to improve international transportation and communication. Overall, the region will become attractive not only to local, but also to foreign investors.

Armenia may further enhance its relatively developed financial sector and become a regional financial center. As a recent World Bank study indicates, Armenia has also good chances to become a regional hub for aviation services²⁸ if it can expand its tourism industry by taking advantage of the prohibition of certain types of entertainments (e.g. gambling) in the multi-million Muslim neighborhood. Furthermore, in view of its fascinating history and ancient civilization the entire region should have great potential for developing eco-tourism.

Policy Constraints

Potential restraining factors, endogenous to the model, could arise from

- A worsening of the political situation in Armenia;
- Slow responsiveness and reluctance of the government of Armenia to improve the overall business climate and promote a more favorable environment for foreign investment;
- Inability of the diaspora to adjust to the new policy environment of post-independent and post-conflict Armenia;

Exogenous constraints could come from

- Major recessions in the largest host countries,
- A renewal of the regional conflict.

Policy recommendations

²⁸ The Caucasian Tiger, Policies to Sustain Growth in Armenia., WB Report No. 32770-AM, in two volumes, Washington , DC, 2007,

Criteria for assessing policy alternatives

The choice of policy alternatives for further action could be guided by the following criteria:

1. Is the proposed policy **beneficial for the country's economic development** including **poverty reduction**? Is the assistance provided creating new jobs, increasing the country's export potential, enhancing the development impact or does it mostly support consumption? Is the growth of the Armenian economy high enough to accommodate the inflow of remittances without major shocks in the foreign exchange market or is the latter dwarfing the real growth by appreciating the national currency and posing serious concerns for the country's export competitiveness?
2. Does the policy alternative **promote good governance and openness**? To what extent is the diaspora's assistance accompanied by accountability mechanisms? Are there channels to integrate some of the diaspora's investments into the public investment programs (PIP) and make them more visible to the general public? Is there room to harmonize diaspora assistance with other donor support, increase the probability of co-financing with IFI²⁹s based on priorities indicated in the government's PRSP³⁰ and MTEF³¹ documents? Are the responsible public institutions engaged in an open policy dialogue with diaspora network organizations?
3. Is the policy choice stimulating further **democratization** of the society and improvement of the quality of performance by political institutions?
4. Is the policy option **administratively and financially feasible**? Is it possible to manage such a complex and diverse body as a worldwide diaspora? Are there enough channels to ensure effective communication? Is there enough capacity in the transnational space to facilitate the mutual dialogue?

²⁹ International Financial Institutions

³⁰ PRSP stands for Poverty Reduction Strategy Paper

³¹ MTEF stands for the medium-term expenditure framework

5. Is the policy alternative **politically feasible**? Is it clashing with entrenched ideologies among diaspora organizations? Is the domestic private sector willing to create the space needed for collaborating with the diaspora? Does the policy alternative provide safeguards against potential conflicts of interests?

Preferred alternative and outline of the implementation strategy

The new generation of political leadership³² in Armenia may consider choosing the third scenario as its framework for the government to create a common vision with the diaspora, and build economic, political and institutional structures that would facilitate joint realization of the common vision. Major steps of policy implementation could include:

1. Create **institutions** that will ensure overall coordination and facilitation of the policy dialogue with the diaspora, information sharing and participation by diverse communities. Despite all the notable work done over the last fifteen years by the All Armenia fund, it has not been able to become an umbrella organization coordinating the field. Complementary approaches would include:

- There are emerging diaspora-based think-tanks³³ generating ideas on policy alternatives for Armenia's development. However, there is no venue to facilitate the dialogue on their proposals and there are no channels to incorporate these ideas in the "official" public debates.
- The largest institute providing an opportunity for policy related-debates is the Diaspora Conference held in Yerevan, Armenia in 1999, 2002 and in 2006. However, there is no mechanism to integrate Conference debates into the country's public policies³⁴. It will help to make these efforts more operational, if a permanent Secretariat (or even a Ministry) is created in Armenia to follow-up on

³² The newly elected President Serge Sargsyan and its government,

³³ Armenian International Policy Research Group (AIPRG), Armenia 2020, Policy Forum of Armenia (PFA), etc

³⁴ Manaseryan T. (2004)

recommendations of the Diaspora Conferences and ensure that they are considered and adopted by the government and are translated into executive actions. Another important aspect is the legitimacy and representation of the Conference participants. Delegates of the Conference should be elected directly by diaspora communities, not selected by the organizers of the Conference or any governmental agency in Armenia. Some scholars are very skeptical about the overall productivity of the Diaspora Conference. Perhaps the problem does not lie in the inappropriateness of the chosen model of interaction, it is more correlated with the stock of trust given to the conference by both sides and the capacity of this institution to deliver tangible results.

- The present role of the Ministry of Foreign Affairs in managing a large diaspora-funded programs will need to be re-examined as its involvement needs to reflect national development programs. One possibility would be to specialize the Ministry in generating funds through its network of embassies, while other agencies, including the proposed Secretariat, might help guide their allocation by facilitating discussions about strategic programs and sustainable development.

2. Establish **financial institutions** that will pool diaspora investments towards public investments or that will facilitate co-financing with IFIs. The creation of investment funds (Korean example) to facilitate institutional investment, would be an effective route to substitute for the current practice of consumption financing or philanthropy.

3. Accelerate implementation of **structural reforms**, sharpen enforcement practices and improve public sector accountability. Major barriers to foreign investments still remain and result in a perception of an unsatisfactory business environment³⁵, low investor confidence reinforced by the unfinished agenda of customs and tax administration reforms³⁶. The independence and professionalism of the Supreme Audit Chamber also demand major improvements.

³⁵ Business Environment and Enterprise Performance Survey 2005, joint survey of the World Bank and European Bank for Reconstruction and Development (2006)

³⁶ Armenia: Poverty Reduction Support Credit III, World Bank, Washington, DC 2007

4. Aggressively address the challenge of creating a fair and competitive economic environment. In addition to equal treatment of taxpayers, there is a need to ensure free market competition, elimination of (unfair) entry barriers and effective application of competition promotion policies.

5. Upgrade the internal **political system**. First of all this implies a public commitment to free and fair elections, promotion of a culture of truth in public matters, supported by responsible media, making sure that the political system provides a balanced representation, including that of the diaspora, and creating legislative provisions that would mitigate the risks of political destabilization.

6. Provide **special incentives** to promote investments in the knowledge economy/ frontier industries (examples of India and Taiwan). While the tax holidays for the foreign direct investment are expected to be removed starting from 2008, an extension could be made for foreign/diaspora investment that creates industrial clusters and knowledge-based industries (while avoiding Kazakhstan's phenomena of expanding construction of grandiose building rather than developing the software).

7. Ensure that there are diverse **communication channels** to present both official and non-official visions of Armenia across the world. This may require expanding the radio coverage of news from Armenia, creation of special/interactive web sites and better coordination with Ambassadorial networks in international organizations and foreign states.

The government should also provide guidance to the diaspora on Armenia's development objectives that would help to translate the comparative advantage of the diaspora into a competitive advantage for Armenia:

- Encourage the diaspora to shift its assistance from philanthropy to **institutional investments**, to off shoring production chains and creating knowledge-based industries in Armenia. This may required reforming diasporic institutions to be able to accommodate the necessary change;

- Draw on the diaspora **to build capacities** both in the public and the private sectors, especially given that there are already basic capacities in place for further capacity development,
- Revisit the mode of direct **participation by the diaspora in the political power sharing institutions**. The present mode creates excessive competition and bargaining while what is needed, is help from the diaspora to create pre-conditions for achieving democratic stability through an improved culture of public debate, spirit of accommodation, and the systematic practice of deliberation and political tolerance³⁷,
- **Mobilizing the diaspora’s professional skills** as an additional source of knowledge transfer. These would require getting the diaspora to finance the temporary return of diaspora experts (e.g. along the UNDP’s TOKTEN system and the Korean experience), and also using the opportunity of other donors’ (USAID) funding possibilities.
- Getting the diaspora to move away from **personality politics** and adopt a more politically mature approach while providing its assistance.

Attachment 5 summarizes key steps for the proposed Action Plan, along with anticipated outcomes and suggested indicators to verify the effectiveness of diaspora’s support of Armenia’s sustainable development in its major dimensions.

Accountability

To promote the long term sustainability of the diaspora’s willingness to support Armenia’s development agenda, Armenian should build its accountability capabilities possibly with diaspora assistance. Indeed, the role of transparent and accurate accountability mechanisms can not be emphasized enough as a basis for retaining a

³⁷ The international practice provides examples of both, with some countries (Switzerland, India) having rejected the direct participation of their diaspora institutions in the nation building exercise. Some other countries (Italy, Dominican Republic) choose to designate a space (seats in the Parliament) for diaspora representatives’ participation.

trusting relationship between the two parties. The Secretariat should become the leading agency in the reporting chain, responsible for the centralized management and reporting on the funds and deliverables. The Secretariat should report directly to the Government of Armenia and to the Diaspora Conference, though the entire reporting process should be organized through a bottom-up approach. The timely, periodic and accurate information on the utilization of diaspora funds should flow from project implementation agencies or communities to their respective oversight public administration bodies, which should then consolidate these reports on all projects under its jurisdiction and submit these reports to the Secretariat. The reporting and accountability process should be subject to public audit. Attachment 6 provides an institutional structure of the proposed accountability framework.

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(<http://www.eurasianet.org/departments/insight/articles/eav022607.shtml>)

Attachment 1

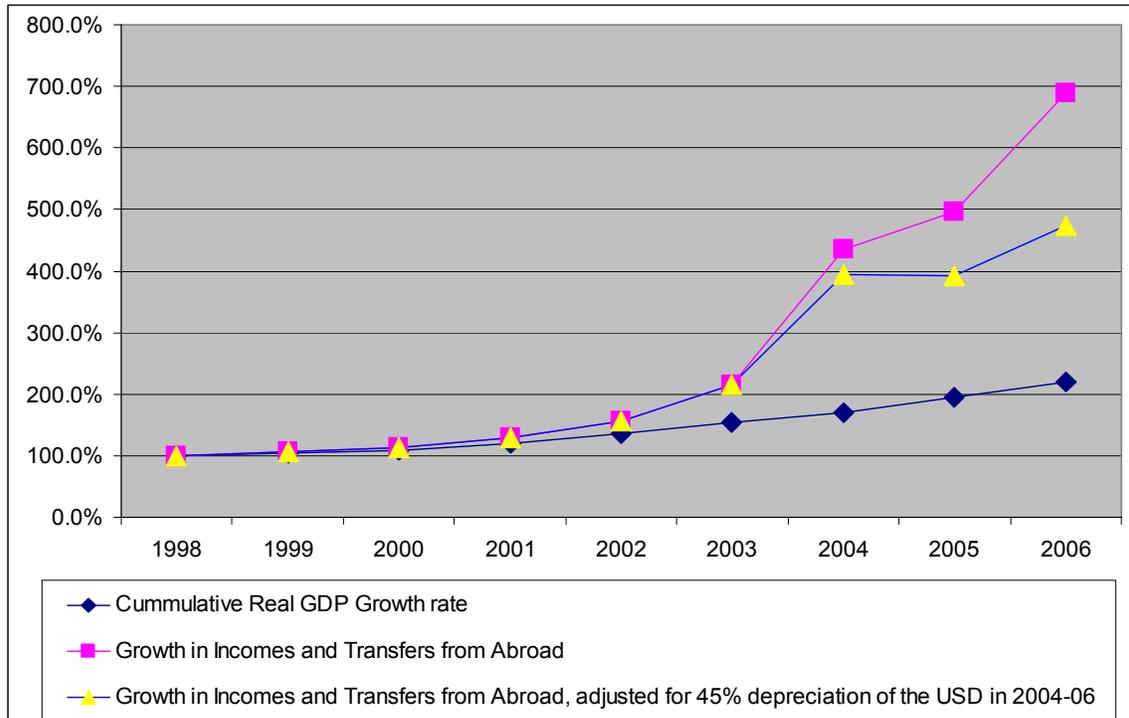
Table 1: Financial Flows from Abroad (the credit side of the BoP)

	Min USD		
	2004	2005	2006
Income from abroad, of which	397.46	457.51	624.26
Compensation for employment	259.52	295.76	446.32
Income from investment abroad	15.66	28.76	48.3
Current non-official transfers, o/w	514.82	603.52	791.67
Technical assistance	13.47	12.93	12.16
Humanitarian Assistance	30.4	33.5	41.39
Other current private transfers from the diaspora	405.27	463.19	608.03
Capital Account	47.23	76.06	91.94
Capital transfers,	41.34	73.25	86.38
Migrant's capital transfers	10.21	11.32	7.81
Other capital transfers	23.95	46.71	59.62
GDP	3,555.0	4,902.8	6,406.3
Total Current Account	1239.14	1437.66	1947.87
Memorandum item:			
Income from abroad as % of the current account	32.1	31.8	32.0
Current private transfers as % of the current account	41.5	42.0	40.6
Current income and private transfers from abroad (% of GDP)	25.7	21.6	22.1
Capital transfers from abroad (% of GDP)	1.2	1.5	1.3

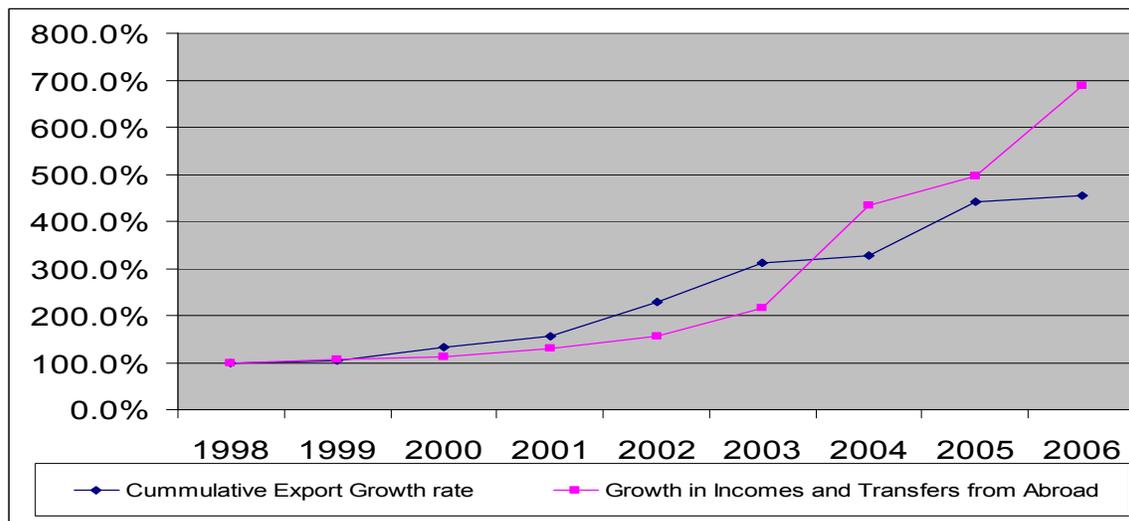
Source: National Statistical Service,
http://www.armstat.am/Arm/Publications/2007/BOP_07/BOP_07_3.pdf

Attachment 2

Growth Rate of Real GDP and Transfers from Abroad (1998=100)



Armenia's Export Pattern and the Growth in Private Transfers (1998=100)



Attachment 3

Table 3: Armenia, Twelve Largest Export Products 1999-2006

(Thousand USD)

		1999	2001	2003	2004	2005	2006
Total Exports, o/w		231,669.0	341,836.1	685,599.6	722,911.5	973,920.5	1,004,000.0
1	Liqueur, spirits and undenatured ethyl alcohol <80%	8,966.8	36,046.9	57,403.2	53,709.6	79,920.4	72,303.4
2	Copper (ores, waste, ash and concentrates)	11,664.6	29,668.3	17,022.5	107,390.4	95,904.4	144,122.8
3	Waste, scale, dross, slag of iron or steel industry			19,941.5			
4	Aluminium (foil, unwrought, waste or scrap)	8,262.6	11,499.9	47,958.8			25,651.6
5	Electrical energy control and distribution boards	19,146.7	16,633.0		19,043.1	26,105.5	
6	Synthetic rubber	7,368.1	12,232.8				24,170.8
7	Brassieres, girdles, corsets, braces, suspenders, etc	7,149.6		15,477.4	25,325.4	20,445.7	
8	Diamonds, not mounted or set	83,890.8	85,799.5	287,947.6	221,019.4	263,021.0	226,069.1
9	Gold, unwrought, semimanufactured, powder form	11,831.5	19,241.6	35,403.9	43,546.4	36,454.2	36,664.6
10	Jewellery and parts, containing precious metal		15,548.2	26,191.2	33,557.0	34,655.2	35,613.8
11	Ferro-alloys				64,732.3	238,261.5	161,039.7
12	Watch cases and parts thereof			20,740.5			
12 Largest Export Products		158,280.7	226,670.2	528,086.6	568,323.6	794,767.9	725,635.8
12 Largest Export Products as % of Total Exports		68.3	66.3	77.0	78.6	81.6	72.3

Source: National Statistical Service

Attachment 5

Table 3: Income Dynamic of Non-poor, Poor and Extreme Poor in Armenia (1999-2005, percent of total)

Indicator	2005				1999			
	Total Armenia	Yerevan	Other Cities	Rural	Total Armenia	Yerevan	Other Cities	Rural
Poor								
Job Incomes, %	44.0	63.3	44.5	23.3	27.4	38.0	21.3	19.1
Income from agriculture production	7.1	0.0	1.7	30.4	13.0	0.1	17.2	25.4
Social Transfers	32.0	23.1	35.2	37.8	35.9	28.3	45.6	38.1
Private transfers	6.7	8.1	6.1	6.0	3.4	5.8	1.5	1.9
Other Incomes	10.1	5.5	12.5	2.7	20.2	27.7	14.4	15.5
Extreme Poor								
Job Incomes, %	21.1	35.7	20.7	10.4	14.1	19.8	6.5	11.2
Income from agriculture production	7.9	0.0	0.9	25.1	6.2	0.0	10.2	12.1
Social Transfers	46.9	39.9	50.2	40.6	70.7	67.2	79.6	70.1
Private transfers	6.8	13.0	7.0	1.6	0.9	3.2	0.0	0.6
Other Incomes	17.4	11.4	21.2	22.3	8.0	9.9	3.7	5.9
Non-Poor								
Job Incomes, %	65.0	78.7	65.7	41.2	28.8	37.4	38.7	18.0
Income from agriculture production	9.6	0.0	2.0	33.0	27.3	0.5	6.1	63.2
Social Transfers	10.7	6.3	13.2	14.3	4.7	4.6	7.2	3.4
Private transfers	11.2	12.6	13.5	7.4	16.4	23.2	28.6	5.5
Other Incomes	3.5	2.3	5.7	4.1	22.8	34.4	19.4	9.9

Source: Armenia: PRSP - II Document, Government of Armenia, 2008

Attachment 5

Proposed Action Plan

Action	Anticipated outcome	Indicators
A. Address Armenia's Development Challenges		
<i>1. Diaspora</i>		
Decrease philanthropy and increase business partnerships	Promotion of institutional investments	FDI, capital transfers,
Reform diaspora Institutions	Increase diaspora's capacity to respond	
Mobilize expatriates to close the capacity gap in Armenia	Knowledge transfer, capacity building	Number of expatriates working in Armenia, Number of beneficiary fields
Off-shor certain parts of the production chain	Creation of new jobs, Creation of clusters, Expansion of Armenia's exports	Percentage increase of exports, Number of new jobs created
Assist Armenia's market access and international integration	Integration into the global economy	Dynamics of value added composition of Armenia's export
<i>2. Armenia</i>		
Improve domestic competitive environment	Increased capital inflow	Global Competitiveness Index
Create new institutions to facilitate the dialogue with diaspora and channel investments	Improved leadership and provision of guidance Improved effectiveness of communication	Number of new initiatives
Improve public sector accountability	Improved investor confidence, Improved government performance	Corruption perception index
Provide incentives (for example, tax holidays) to diaspora/FDI investment in knowledge-based industries	Attract more strategic investment	Investment/FDI growth rate

Create trustworthy and transparent environment for partnership	Engage diaspora in policy dialogue	Number of development/investment projects over time
B. Strengthen Democratic Institutions		
Strengthen democratic traditions	Improved quality of public decision-making	Improved public perceptions
Support free and fair elections	Increased legitimacy of elected authorities	Public support for reforms
Agree to balanced representation in the power sharing institutions	Diverse representation	Percentage share of political parties represented in the NA and GoA
Improve the quality of political discourses	Transfer of the international/more advanced countries' experience in building democracy	Discourse Quality Index
Support free and professional media	Improved quality of the information delivered to the public, accountability and transparency of public institutions	Number of independent TV stations, newspapers, other sources of information
Support legislative improvements	Reducing bureaucratic barriers	
C. Promote Regional Stability		

Attachment 6

Flow of Funds, Implementation, Accountability and Reporting

