ADVANCING MICROFINANCE AND COMMUNITY ENTERPRISE DEVELOPMENT IN ARMENIA: BUILDING LOCAL ASSETS TO PROMOTE GROWTH WITH EQUITY

Abstract:

This paper examines the importance of a practice of Community Enterprise Development (CED) as a means of obtaining, retaining and maintaining capital within communities in Armenia. Such a practice focuses upon identifying and maximizing the tangible and intangible assets that are essential for carrying out sustainable community development initiatives. CED can become a highly effective tool in addressing the two Armenian paradoxes of high GDP growth with little impact on poverty, and the absence of jobs to accompany the growth in output that has characterized Armenian economy in the recent period.

Community Enterprise Development is a professional practice based on principles of participation, the existence of assets transformable into community wealth, community ownership, sustainability, and scalability. Together, they can play a significant role in the creation of a social economy for Armenia.

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Executive Summary

This paper examines the importance of a practice of Community Enterprise Development (CED) as a means of obtaining, retaining and maintaining capital within communities in Armenia. Such a practice focuses upon identifying and maximizing the tangible and intangible assets that are essential for carrying out sustainable community development initiatives. CED can become a highly effective tool in addressing the two Armenian paradoxes of high GDP growth with little impact on poverty, and the absence of jobs to accompany the growth in output that has characterized Armenian economy in the recent period.

Community Enterprise Development is a professional practice based on principles of participation, the existence of assets transformable into community wealth, community ownership, sustainability, and scalability. Together, they can play a significant role in the creation of a social economy for Armenia.

A national program of community enterprise development will advance economic literacy, assure risk mitigation, provide information services, create business skills and build equity and trust. CED practice requires a meaningful and productive discourse between the economic base and the summit; between community leaders and economic elites. It both engages those who were previously not active participants and informs the policy makers who were previously unable to support their participation. It offers a stake in the economy of the community. Consequentially, stakeholder participation in community entrepreneurial initiatives will build broad based support for a national development agenda.

We propose to engage a network of higher learning institutions and NGOs to introduce transparency, accountability, and knowledge generation within a sector of the economy that will not be reached through traditional education and skills development channels. In turn, the educational and training institutions themselves will benefit from the existence of programs that connect them more directly with the needs of the labor force. In the post-industrial era,the traditional idea of a worker with a job has been replaced by an entrepreneur prepared to respond to the new demands of a flexible manufacturing and service industry. Only an educational system that can form entrepreneurs at all levels of the economic pyramid will be able to bring their labor force into the new global economy.

1. Introduction: Two Armenian Paradoxes

A general view on the Commonwealth of Independent States is that these countries do not have serious poverty problems. There are, after all, relatively high levels of human development and impressive economic growth and in some cases, like Armenia's, an improvement in the Gini index of social inequality. The general assumption has tended to be that any poverty or inequality issues are residual problems that will either be addressed by social policies, or will be solved as a matter of time given an assumed "trickle down effect" as a result of economic growth. However, this view overshadows the fact that poverty and inequality issues are pressing concerns in all of the region (Slay & Hughes 2006).

As many analysts agree, decade-long growth in Armenia has produced a sizable reduction in poverty as measured in absolute terms. For instance, household income surveys regularly conducted by the Armenian government show that the proportion of Armenians living below the official poverty line shrunk from 55 percent in 1999 to just below 43 percent in 2003. There is also significant investment coming into Armenia (IMF, USAID, Armenian Diaspora).

However, other indicators provide a more somber picture of the progress Armenia has made in the social and economic spheres since its independence in 1991. We can sum this up in two Armenian Paradoxes. The first one is the paradox of high GDP growth with low impact on poverty (World Bank, undated). For instance, some argue that the official poverty line of about 13,000 drams ($30) per month is set too low given the rising cost of living. On a similar token, the National Statistical Service of Armenia (NSSA) estimated in a 2003 report that "the average Armenian family spent two thirds of its income on food -- a telling indicator of persisting hardship." There is also a mounting income gap dividing the rich and poor in urban and rural areas. In fact, many rural areas have hardly seen any development since the economic collapse of 1992-1993, when Armenia's GDP shrunk by half due to the outbreak of wars in Nagorno-Karabakh and elsewhere in the South Caucasus. This social polarization (urban-rural divide) reflects a highly uneven distribution of benefits of economic growth.Another important factor is that the rate of job creation has lagged behind the economic expansion, failing to alleviate the country's number one social problem: unemployment.This is because, like many other transition economies, for many years Armenia has experienced "jobless or even job loss growth despite impressive economic growth rates" (World Bank 2007). In fact, labor market outcomes in Armenia are more modest than in many other transition economies. The second Armenian paradox is thus the failure of job growth to accompany growth in output (Education Development Center 2003).

Duntzet.al. (2001) carried out a comparative analysis of labor market shares in the CIS region and note how Armenia and Kyrgystan have a significantly lower share of full time employees than in other countries, and a correspondingly larger share of individuals employed as unpaid family workers (24.25% and 29.15% of the labor force, respectively). These alarming numbers contrast with the low proportions of unpaid family workers that can be found in Russia (1.35%, the Ukraine (0.20%), or Hungary (0.66%).

In addition to the general numbers, atypical work arrangements make the situation for the Armenian labor force even more challenging; the number of workers who are employed in atypical hours is significant (World Bank, undated): by 2004, 23.3% of the employed worked part time. This is a much higher share than on average in the EU-15 countries, and close to tenfold the ratio in more developed Central European transition countries. This is for the most part involuntary part time employment; only 12% of those working part time were unwilling to take full time work. Moreover, for a good proportion of those employed, their employment agreement were based on oral agreements with their employers, typically without social contribution payments and without any insurance or other protection against sickness, work injury, unemployment, or any kind of retirement benefits.

We can summarize the main trends of Armenia's labor market in the following statements:

1. The greatest challenge since the transition has been, in Armenia's case, the shift from stable wages and salaried jobs to casual and less formal jobs and self employment. Only about two thirds of the employed population have permanent jobs.
2. To a large extent, the flexibility arrangements in the employment conditions are of a forced nature, i.e. involuntary, due to very high and fluctuating unemployment in the labor market. In fact, high unemployment rates are persistent and even worsening in virtually all transition economies (Czamarski& Slay 2006; Arandarenko 2006).
3. Employment rates have fallen in Armenia and the CIS region since 1998 (Mitra 2007) and since 1990 until 2005 (World Bank 2007) and many of the existing jobs are in low-productivity occupations. About a quarter of the inactive population can be considered discouraged workers: "Most of these people have lost any hope of finding work or do not know where or how to do so" (WB 2007:7).
4. Entry of new firms has been important for job creation, but it has slowed down and existing firms have improved productivity by shedding labor; hence, there are important constraints on the demand side for positive changes in employment rates coming from the private sector. The largest increases in labor productivity have taken place in sectors in which labor force reductions have been more intensive (World Bank 2007).
5. The informal sector has played historically a significant role in providing employment and income to the poorest sectors. By 2004 and depending on the calculation method, the informal or "shadow" economy represents anywhere from 50% to 30% of Armenia's GDP (Tunyan 2005; this figure includes illegal activities) and represents 65 to 80% of Armenia's employment,[2] including large portions of women.
6. The private sector has grown, but has not yet expanded enough to create sufficient number of jobs to replace job losses in the public sector. However, this situation may be starting to change: in the production sector, in 2003, the number of jobs created in the private sector surpassed the number of job cuts in the state sector for the first time since 1990 (World Bank, 2007).
7. During the next decade, the labor supply will increase, as people born at the birthrate peak of the 1980s enter the labor force. The population 15-64 is expected to increase from 2.12 million in 2001 to 2.45 million in 2015 (Idem).

The rural sector in Armenia deserves special mention due to its importance in population, employment, and economic trends. More than a decade after the transition, the agricultural supply chain is being created on an ad-hoc basis, largely by entrepreneurs who have enough capital to finance the purchasing, processing, and transport of agricultural products: "For continued sector growth, sustainable financial services are required that are more adjusted to the needs and peculiarities of agricultural production. Working capital, small investments and

[2] These figures include people working illegally, self-employed, and home-based, other forms of atypical work.

operating capital, long term financing, leasing, and other financial tools need to be introduced. Capacity building for banks and MFIs on agriculture business and risk assessment will be essential" (World Bank 2005).

Given the acute nature of the unemployment problem in Armenia, it is logical to turn to microenterprise and other entrepreneurial activities as a mechanism to address the limitations of the formal private sector in generating sufficient employment opportunities for the labor force. To be sure, there is some extent of entrepreneurial activity taking place in Armenia; but these activities are limited in their scope and scaling up (and therefore impact) potential. Duntz et al (Ibid) note that there is a relatively low proportion of entrepreneurs in Armenia (4.33% of the labor force), particularly as compared with 10.85% in Hungary or 8.55% in Poland. There is little flow to entrepreneurial activities from unemployment or inactivity.

The profiles of entrepreneurs are also a telling factor. According to the available information (Idem), for both Poland and Croatia, entrepreneurial individuals are statistically significantly more likely to be male, in the 36-50 age range, and more educated than the rest of the labor force. Strikingly, these differences are completely absent in such countries as Russia and Kyrgyzstan, where there are no statistical differences between entrepreneurs and the rest of the labor force. In Armenia entrepreneurs tend to be very slightly more educated, and are mostly men. Other studies show that Armenian entrepreneurs, when not in the subsistence economy, tend to engage primarily in trade activities and have business as a part time activity in combination with employment in the State sector (Aidis 2005).

In the poorer sectors of the population, microentrepreneurial activities have deep historical roots. During the economic debacle that took place in Armenia immediately following independence in 1991, many 'shadow' activities, including mini factories and unregistered street trade, while completely outside of the national statistics, provided means of employment and income to large segments of the population. A walk around Yerevan during any afternoon when the weather is favorable will show that this type of activity is still very much prevalent. However, these are primarily subsistence activities with little if any potential for scaling up under the conditions in which they currently operate.

Historically, relatively little attention has been paid to small and medium enterprise (SME) development in the transition economies, particularly as de novo enterprises (i.e., new businesses). Even though in the early 1990s there was an exponential growth in newly created enterprises, prompted by tremendous consumer demand for products that had been unavailable under the centrally planned system, by the mid to late 1990s the picture started to change. This period registered a general declining trend in new business development (Aidis2005). Increasing regulations, increasing level of domestic and foreign competition, lack of financing and decreasing consumer demand have been mentioned as causes for this phenomenon.

The decline in new firms constitutes a problem since SMEs are of special importance to transition countries for a number of reasons. Firstly, they provide economic benefits beyond the individual enterprise in terms of experimentation, learning, and adaptability. These factors are especially important in countries that have undergone radical transformations from the centralized to a free market system. Secondly, SMEs have been shown to reduce the erosion of human capital by providing alternative employment opportunities for relatively skilled, but unemployed, workers. In transition economies, they can also provide a mechanism for transferring business skills that had been developed illegally during the Soviet regime. However, the CIS countries in particular face severe challenges to SME development.

A main obstacle that CIS countries face for entrepreneurship development involves such factors as: dominance of old Soviet, Russian language networks; no memory of private business development (except for illegal activities); a political system where the collapse of Communism led to only a partial rotation of the political elites; lack of financing; and a high level of corruption. These factors are compounded by a role of the State in CIS countries that follows a "grabbing hand" model and an inspection culture that hinders new business development (Idem).

In light of these conditions, development initiatives could be looked at as mechanisms to foster equitable economic growth and to promote opportunities for increased employability levels and entrepreneurial activities in both rural and urban areas. However, development efforts tend to be concentrated in the macro-level, and do not pay enough attention to the micro-level of how economic changes are affecting individuals, families, and communities, particularly in poorer areas. An important exception to this trend is the existence of several types of focused, micro-level (i.e. community and individual levels) development strategies to address Armenia's challenges. One of these development strategies is microfinance and microenterprise development as a mechanism to foster individual entrepreneurship, which is in this context considered a legitimate tool for economic and social development.

2. The landscape of Microfinance and NGO development work in Armenia

Development efforts that try to promote employment and income-generating opportunities for poor populations are often carried out under the scope of microfinance and microenterprise development tools. These are based on the assumption that there is an entrepreneurial spirit and practice often hidden in poorer communities whose members do not have access to mainstream banking opportunities. Alongside these efforts, international and local NGOs carry out a wide range of activities, from infrastructure development to social services including health, basic trainings, care of the elderly, youth, domestic violence, and other topics. In this section we examine the fields of microfinance/microenterprise and the work of NGOs have carried out in Armenia and explore their potential and limitations. These are two components of an integrated approach to equitable development and growth.

2.1 Will commercial microfinance undermine attempts to promote equitable growth?

Microfinance in Armenia is part of a young industry that started in the Caucasus after the Soviet rule and, in Armenia's case, prompted by natural disasters such as the earthquake that deeply affected the Northern region in 1988. The sector has great potential for growth, both in terms of volume and diversity of services. For instance, the median age of Armenian MFIs is 5.5. years, but in this time they have not produced a wide variety of products and in fact many still offer modifications of a single loan product. The majority of MFIs focuses on urban clients engaged in small trade or services. The portfolio is not evenly distributed across Armenia, since almost one third of it is allocated to Yerevan alone, and since some rural areas have not been served by MFIs at all.

Recent regulatory changes pose compelling challenges for the microfinance industry in Armenia. Until recently, microfinance activities had been carried out by three main actors: (1) local and international NGOs acting as microfinance lenders; (2) commercial micro-lenders formed as non-depository credit organizations and; (3) formal banks, which participated in various micro-lending programs with capital from international financial institutions and from international NGOs (Harutyunyan 2005). These entities operated under various legal forms, pending a regulation that would provide a sense of uniformity and standards in the field.

Starting in March 1, 2006 Central Bank of Armenia (CBA) regulations have been requiring that Armenian MFIs formally register with the CBA as credit organizations (Law of The Republic of Armenia On Credit Organizations as Passed by the National Assembly on May 29, 2002). It was expected that this act would remove a major barrier to investment and thereby increase MFI access to commercial funding. However there is little in these regulations that serve the wider economic development interests of the country, particularly in the rural areas. According to a recent study, there is a strong imbalance toward providing micro loans in the more urbanized areas. Accordingly, "the outstanding portfolio of all surveyed MFIs is not well diversified, with roughly half invested in trade (mainly open market trade), 36 percent in agriculture, 10 percent in production and services and 2 percent in social loans" (Dalyan& Graham 2006). Little or no effort is going into business development services or creating value chains or investing in local capacity building.

Value chains in particular deserve special attentions as they have been acknowledged by microfinance practitioners worldwide as a crucial step in the process for a microenterprise, particularly in rural areas, to become successful. The importance of value chains grow exponentially if we imagine ways to place the products from rural entrepreneurial communities into the regional and global markets. Value analysis is an extremely helpful tool in this regard; it is both an analytical as well as an operational model. The model is based on the principle that a product is rarely consumed at the place of its production, but is

> "transformed, combined with other products, transported, packaged, displayed, etc until it reaches the final consumer. In this process, the raw materials, intermediate products, and final products are owned by various actors who are linked by trade and services, and each add value to the product. Various types of public and private services, like business development services, electricity, transport, financial services, etc., are as important as favorable framework conditions, i.e. laws, regulations, and their enforcement. The Value Chain model supposes that understanding these interactions, it is possible for private and public agencies to (1) increase efficiency and thereby increase total generated value, and to (2) improve the competence of intended actors to increase their share of the total generated value" (Community of Practice 2007:3).

The reasons value chains are important as operational models is that some people in rural communities need support for becoming actors in existing value chains and to get to play a role in them that will provide them with enough negotiating power not to become victims by turning into the weakest links in the chain. It can also happen that some actors get stuck in a value chain that provides low income possibilities, so they need support to explore new opportunities, or to improve their position in the current value chains. It is also important to know that helping one actor in the chain become stronger, can actually translate into creating competitive advantages for the whole system. This means that a value chain analysis and operating model can make a difference beyond the microscope of the businesses or microentrepreneurs that will initially benefit from it. However, these components are either nonexistent or not well developed in Armenia.

In addition to the issues faced above, Armenian MFIs are primarily donor-funded. They do not mobilize savings and have yet to attract funds from commercial sources. According to Dalyan and Graham, “the debt funds which they have on their balance sheets typically represent loans from founders, associated networks, or socially responsible investors.”

The new regulation should become a means to contribute to the strengthening of their organizational structures and management systems. In this paper we argue that it should also promote the strengthening of the connections between the microfinance and larger community development field in Armenia. For example, even though partnerships between NGOs and MFIs are still rare in the ECA region, there are a number of ways in which MFIs could expand their products and combine them with services provided by NGOs and other institutions (see examples in Section 4) , thus promoting a more integrated approach to microfinance and community economic development as effective tools for the social and economic growth of Armenian communities.

There are currently several hurdles in Armenia for an NGO, functioning as a community development organization, to provide integrated services that include any micro-finance component. Most of the more active NGOs have had to spin off their micro-finance activity into NBFIs in compliance with recent banking regulations.

Shen, an Armenian NGO offers a good example. Shen’s mission is to promote social and economic development and empowerment in remote and vulnerable communities, with the active participation of its members. A major part of Shen’s work is to provide its constituency with technical assistance in income generating activities. It works with “civic action groups” to organize community members around local community issues. It offers business development services in the production, processing and marketing of fruit and other farm products. Shen has also focused considerable resources and effort in promoting the construction of community centers, i.e. places where people can meet and discuss issues relevant to them and develop a common vision. They offer such activities as computer classes at the center. They also hold group meetings to plan community-centered development activities.

Representatives of Shen have responded to a pressing need to organizenon-agricultural income generating initiatives in the rural communities wherepeople are unoccupied for long stretches of time throughout the year. Economic activity of a more diversified nature could help the community avoid emigration of the labor force and could also help reduce the growing poverty.

In its work with communities, Shen has worked in carrying out community needs assessments, and has assisted them in the election of community civic leaders. Once they have agreed on a specific project, Shen asks the community to put on the table 20% of the total costs of the project.

Each of these projects requires a specific financial product that fits the specific requirements of the chosen community-based development activity. However, the new regulations from the Central Bank effectively prevents the NGO from being engaged in any financial engineering. This causes serious barriers to coordination and effective community-based economic development. They have found that in several regions, communities do not have access to formal banking. And even if the access existed they would rather not use that system.

Given the new situation, it would be a highly appropriate strategy that NGOs find ways to work in conjunction with credit organizations to serve the communities' combined needs of access to resources and skills development. However, there is currently there is great hesitation among NGOs to engage in financial activity with credit institutions. This is the case even between the parent NGOs and their NBFI micro-lending spin-offs. So effectively, recent banking regulations have had a negative impact upon local economic development.

This in many ways reflects a situation endemic throughout many of the ECA countries. According to Bateman (2007),

> … the rapid rise of commercial microfinance has contributed to the steep declines in social capital levels experienced since 1990. Recasting individual survival as a function of individual entrepreneurial success can undermine the bonds of solidarity, shared experience, and trust that often exist within poor communities. This is a truism. Recasting community development and support activities as commercial operations – a central operating principle of commercial microfinance – can dissolve local solidarity, interpersonal communications, volunteerism, trust based interaction, and goodwill.

The diminution of the role of those intangible assets of a community (such as trust, skills building, cooperation, information sharing) which are essential for community wealth building can actually be a major contributor to perpetuating endemic poverty.

2.2 Non-governmental organizations in Armenia: a young and fragmented field

The outlook of NGOs in Armenia provides a mixed picture of some interesting development in an overall fragmented and uneven field, much in resemblance with the situation in the CIS region as a whole. For instance, during the 1990s and early 2000s the sheer number of Civil Society Organizations (CSOs) has increased considerably. However, only a small percentage of them are active. In Armenia, as of mid 2001, the number ofCSOs was close to 3,000. According to unofficial sources, the number is close to 3,500 by 2008. However, fewer than 10% are actually in operation. In other CIS countries the situation is similar; in Georgia, the estimated number of CSOs is around 3,000, but only from 500 to 800 are in operation. The number of local NGOs in Armenia in 1994 had been only of 44, but this changed quickly when, in 1995, Western governments and international agencies began providing grants to promote civil society and democratization in Armenia. By 1997 over 2,000 NGOs had registered with the Armenian Ministry of Justice; but the current number of actual operating organizations suggests that the growth of the field has been dispersed and not very effective at the local level.

Many of the NGOs in the region had been originally established in the early 1990s in response to the failure of the state to provide adequate social protection and services, health care, education and other factors of a safety net that was direly needed due to the rising inequality and poverty characteristic of the immediate post-Soviet period. In Armenia, they also emerged as a result of the earthquake of 1988, which led to a number of international charity organizations to set up operations in the country. International humanitarian organizations like CARE, Oxfam, Save the Children, and others established residence in Armenia since the early 1991s and began to engage in long-term activities. However, the local civil society organizations (CSOs) present a different picture in terms of their capacity and scope. These organizations can play a role in social development, but their overall impact is limited by several challenging conditions. According to a2005 document by the UNDP, Europe and the Commonwealth of Independent States Office, these obstacles include:

- Many CSOs still have poorly defined missions and do not appreciate the importance of strategic planning.
- Centralized management in CSOs and in many cases mutual distrust between CSOs and government are obstacles to CSO development and effective functioning.
- Small organizations are usually insufficiently equipped and weak communication infrastructure limits opportunities for information exchange with other organizations.
- The formal coalitions with the third sector are limited because CSOs still view other organizations as competitors for limited resources. Informal networks are formed when organizations share a need to accomplish a common goal. (UNDP-CIS, undated).

Institutional capacity is a major concern for the functioning and effectiveness of NGOs in Armenia. For instance, only a limited number of them have permanent paid staff; the majority of their personnel are volunteers. International donors remain the primary source of funding for many of the NGOs, although some of this has started to change recently due to decreased inflow of international donor funding, so that some of the NGOs have started to look for alternative financial sources, with mixed success. The original charitable work of many of the international NGOs in Armenia has made it difficult for the local chapters to carry out a transition towards a more sustainable financial development. According to Ishkanian (2003), Armenian NGOs continue to rely entirely on Western financial support.

Who runs the NGOs is another element to consider in the case of Armenia. According to the same author, in Armenia as well as in other post-Soviet states NGOs tend to be overwhelmingly led by Soviet-era elites. In some cases, former structures of the Communist Party got transplanted into civil society structures, leaving their leadership and hierarchical structures intact: “Few working-class people or rural residents, or even intellectuals who were not part of the former structures of power, were able to make this transition. In addition to possessing organizational and language skills, these Soviet elites belonged to social networks that put them in contact with the foreigners who controlled or influenced the distribution of grants" (Ishkanian 2003:6). This problem may actually be reinforced by international donors, who prefer professionalized NGOs and not the more informal and poorly connected NGOs. This results in a process that reinforces previous hierarchies and the survival of those elite-run NGOs who have the administrative capacity, the knowledge of international funding trends, and the social connections that are instrumental for their success.

Given this picture, it is imperative that the development field in Armenia focuses on innovative strategies that can integrate the various sub-fields (microfinance, social services, infrastructure, and others) and that will promote grass-roots, bottom-up approaches to equitable economic growth in rural and urban areas.

3. Introducing Community Enterprise Development in Armenia

Economic development is very difficult in many rural, geographically remote areas. Research on local entrepreneurial activities tends to be anecdotal, and mostly consists of isolated case studies of single or clustered businesses. Theory and capacity have lagged behind the implementation of programs to support local entrepreneurship, and so more often than not the efforts are fragmented and do not lead to scaling up opportunities or replicability or expansion of programs (Allen, Korsching & Vogt 2003). It is therefore imperative to start with a conceptual model of community entrepreneurship that delineates community factors and roles and how they can promote an effective entrepreneurial environment that will create wealth with equity.

A key component of a community entrepreneurship development model must start with the realization that individual entrepreneurship is one element of a larger spectrum of entrepreneurial activities that can benefit a community. In fact, individual entrepreneurship can be considered a self-development strategy that has the *potential* for benefitting the local economy. Local entrepreneurs may have a commitment to the community, unlike business with no local roots, which may demand financial incentives and regulatory concessions to set up business in a given area. Drawing upon local assets can also provide social benefits beyond the economic sphere (Green and Haines 2002). Part of a community entrepreneurship development model must thus seek ways to promote self (individual) entrepreneurship that will produce such benefits and impact.

In the case of rural enterprise in Armenia, the World Bank has identified the following challenges to entrepreneurs: "(i) lack of knowledge or understanding of basic business practices, including accounting, cash flow projection/management, and contracting; (ii) lack of access to appropriate financial tools; (iii) lack of knowledge of marketing, production planning, and profitability assessment; (iv) lack of investment in transport and storage facilities and innovative, low-cost processing technologies; and (v) insufficient match of product varieties and processor and market preferences" (WB 2005). In order to overcome these hurdles, they recommend: "(i) emphasizing business advisory services geared towards small and medium businesses; (ii) promotion of rural enterprise development; (iii) user friendly information sources and demand based consultancy in the areas of accounting, finance, marketing, and law; (iv) new financial products that address alternative collateral provisioning and the specific needs of the agriculture sector" (Idem).

To this assessment, we propose to add a focus on community enterprise development as a mechanism that can help individual entrepreneurs better leverage resources, attain financial sustainability, and expand their potential impact on the business, economic, and social climate of their communities. Only an integrative approach that includes all sectors in the community and in the larger society and economy can become effective tools for entrepreneurship as a mechanism for equitable growth.

Results of research carried out on programs to promote individual entrepreneurship as a tool for local development worldwide suggests that Armenian rural entrepreneurs share some basic needs and challenges with their counterparts in many other courses. Their needs can be summarized as including the following elements: need for tailored training and educational programs; difficulties in accessing outside resources and support services; a sense of isolation; lack of access to capital; a sense of being underappreciated by other communities and by urban centers; and the existence of regulatory frameworks not conducive to entrepreneurial activities (Scott 2005).

One of the key challenges in Armenia is how to create a business climate and social conditions conducive to the success of small and medium scale entrepreneurship in addressing the challenges of poverty and unemployment that still afflict large portions of the population. In the next pages we propose a model to address this challenge.

3.1 Entrepreneurial communities

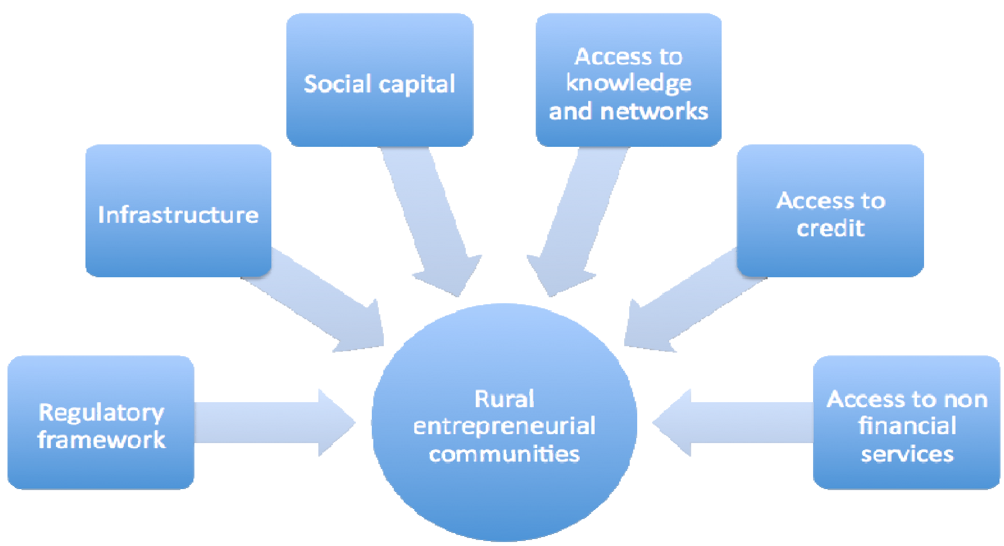
We propose to think about entrepreneurial communities for rural Armenia as the focus. By entrepreneurial communities we mean communities that

> intentionally support entrepreneurship, exchange ideas and experience with others, learn from one another, lobby jointly for necessary change, and learn to do business. They understand that entrepreneurship drives economic growth, job creation and wealth generation through innovation and provision of the economic infrastructure needed in every community. Such communities comprehend that there must be interplay and cooperation among entrepreneurs, small and large businesses, financial institutions, civic groups, educational institutions, health, social service, non-profit organizations and local political structures for viable businesses to form and grow. Individual entrepreneurs develop skills through this community process that they can apply to economic pursuits. The resultant entrepreneurial behavior feeds the pipeline of growing businesses, resulting in thriving local economies. Essential in times of economic recovery, these businesses provide jobs and build the economic base of a region. A rural entrepreneurial community creates community-based leadership and can be a defense against economic depression, especially when outside resources are scarce. (Association for Enterprise Opportunity 2005).

This approach means that in order for entrepreneurship to be an effective development tool, the promotion of entrepreneurial activities must be part of an integrated approach that goes beyond the injection of capital and technical assistance. In this perspective, community enterprise's ultimate target is development, not simply growth for its own sake. The focus is on developing local economies in order to build local wealth.

Successful community entrepreneurship programs offer: education and training; technical assistance and information; entrepreneurial networking; access to capital and infrastructure; leadership and policy development; and a framework to organize community development councils and strategic alliances with microentrepreneurs, SMEs, government, service providers (NGOs). The reason successful programs do this is that they are based on the realization that community wealth can only be achieved by way of a holistic approach that influences all aspects of the social, economic, and political life of the community. These programs are focused on the local needs and opportunities and on a complete cycle of learning and infrastructure development, driven by the clients (the community members), and integrated from the bottom up to policy making and regulation:

Figure 1: entrepreneurship as part of a larger socioeconomic framework: building entrepreneurial communities



3.2 Principles of Community Enterprise Development (CED)

Principle 1: Participation. An abiding principle of CED is that community members are participants in their own programs. Participation is not a passive affair where community members become recipients of programs that deliver goods and services. Participation is an active process that moves beneficiaries to be workers and owners; workers and owners become decisions makers; and decision makers affect policy and become owners and controllers of local resources. Part of the CED practice is to give participants the capacity to turn local resources into working assets which, in turn, leads to building the capital necessary for creating new wealth in poor communities.

People become active participants (P) either in business or social enterprises when three conditions are in place. First, they have to see that there is a good probability (Pr) that there are measurable benefits (B) for participating. Secondly, that the costs (C + OC) are not so high that they override the benefits. Finally, without a good program to lower risk (R) factors, people will freeze into inaction. Communities that have high entrepreneurial activity have been found a way to mitigate risk.

Figure 2. A formula to analyze community participation

$$P_{articipation} = \frac{(B_{enefits} \text{ x } Pr_{obability}) - (C + O_{pportunity}\, C_{ost})}{R_{isk.}}$$

Principle 2: Communities have assets that can transform into community wealth. Communities, no matter how poor, have valuable tangible and intangible assets. Community assets are the tangible and intangible resources owned by the community. Examples of *tangible* assets include: strong and reliable leadership; physical infrastructure such as: school, hospital, church, library, recreation center, social club, marketplace; a landmark, historic site or natural resource; and business that provide jobs and support or serve the community. Examples of intangible assets include knowledge of the local conditions, economy, culture; a social, often informal safety net; traditions; networks; a shared experience dealing with hardships and difficult circumstances; and an entrepreneurial spirit and practice.

People in these communities are, however, unable to transform assets into capital or wealth, because of lack of access to value chains, markets, outside capital, skills and knowledge, information networks, risk protection, supportive policies, a social safety net, and a transparent regulatory environment.

The practice of CED involves working with communities to strengthen or initiate ventures that:

- Produce new income generating activity
- Generate capital to reinvest in community programs
- Provide & develop skills to take ventures to scale.

- Advocate for positive regulatory and policy environment
- Assure sustainability (environmental & financial)

Examples of this abound in the literature and practice of community economic development and more recently, in community enterprise development. Some examples, include village savings and loans, technical assistance to local microenterprises, networks of distribution chains from rural areas to centers, producer and consumer associations, microfinance, microinsurance, business development service, and quality of life services such as affordable housing programs or fee-for-service health systems.

Principle 3: Community ownership. There is something inherently useful in creating and maintaining assets within a community that are owned by the community. Note the word owned; not influenced, and not necessarily controlled in a managerial sense, although these are legitimate second-tier concerns. We are concerned with community, its definition, and its nurturing. Individuals and institutions make up community, but individuals and institutions grow up and leave. Sustainable institutions must be created (and financed) that are impervious or at least resistant to demographic and macroeconomic fluctuations.

Principle 4: Sustainability. Community entrepreneurship is economically sustainable because local companies tend to use local inputs, they export goods and services and import income to the community, and they tend to remain loyal to their community of origin, being less likely to be lured away to another community (Lichtenstein, Lyons and Kitzhanova 2004).

Principle 5: Scalability. Too often, community development initiatives consider it enough to marginally produce an impact on the potential for the community to effectively get out of the poverty cycle and achieve significant levels of growth. Most programs serve a very small clientele and thus their impact is quite limited. The goal of community enterprise must be to transcend the initial successes and strive for microenterprises to become small and medium enterprises and for the community as a whole to achieve increasingly higher standards of living. Taking a system approach can address this by working with the entire community and not only a select portion of it, and by creating a system out of what today are a series of disparate programs that are operating in isolation from each other and with limited impact. Individual programs have their benefits and their place within a community enterprise system; but each operation needs to be seen in the context of the community as a whole.

These principles can lead to the promotion of the “third sector” of the economy, a social economy for Armenia. Armenia can constitute an excellent laboratory for the introduction of business practices that can benefit the communities and establish links across sectors of the economy and society from the neighborhood level to the international NGO level. Figure 1 constitutes a way to draw how rural entrepreneurial communities can effectively be connected to the global economy, so that it is no longer a question if microenterprise and community endeavors matter in the global arena. Rural communities around the globe are already part of the global economy as consumers and producers; CED practice can play a crucial role in helping these communities get business and policy skills and resources to make their insertion in the regional and global economy work to their benefit.

4. Alternative models of Microfinance and Community Enterprise

This section explores regulatory models and microfinance practices in the Caucasus, ECA countries and other regions that have been successful in promoting the microfinance field and encouraging a broader CED strategy. Recent micro-finance regulations in Armenia started an attempt to enable the micro-credit industry to respond to pent up demand. For a development practitioner working in the rural areas, it is not too difficult to imagine that many opportunities abound. Looking at the numbers of new products and resources being marketed each week; the crafts, the farm products, the processed foods, technical services and cultural/tourism activities; it is easy to paint an idealized picture of rural community life in Armenia. Such a picture would be one that portrays local markets as bustling with entrepreneurial activity.

In fact, this picture remains more abstract than real, even with a regulated micro finance system being currently developed. We therefore must ask what else is needed.

Community Enterprise Development is an integrated approach that leads ultimately to building wealth in the community through a mix of obtaining, retaining and maintaining local assets. Such an approach takes the community through a process of identifying untapped resources that can be acquired for conversion into tangible and intangible assets. Once this process begins, it is important that mechanisms are in place for assuring these working assets are retained by community institutions for creating capital that can be invested into community wealth building activities. And equally as important, in order to assure the most efficient and effective use of these assets, it is essential that a sound asset maintenance program is in place.

According to BASIX (2007), and its program for Financial Inclusion for Livelihood Promotion, community entrepreneurship development requires a three-pronged approach that they refer to as livelihood financial services (LFS), agriculture/business development services (Ag/BDS) and institutional development services (IDS). They refer to this mix as the BASIX Livelihood Triad.

The LFS includes savings; a variety of credit products for both agriculture and non-farm, short and long-term; insurance for lives and livelihoods that include health, crops, livestock and business assets; money transfers for remittances, commodity derivatives and financial orchestration.

The Ag/BDS offers productivity enhancement options, cost reduction strategies, non-insurance risk mitigation, local value addition to products, input supply/output sales market linkages, and product diversification.

The IDS include many of the non-tangibles such as awareness campaigns; skill and entrepreneurship development; building solidarity and trust; formation of groups, federations, cooperatives; accounting and management information systems; encouraging local collaborations; and policy work that includes advocacy and analysis.

It is anticipated that, together, these services will enhance entrepreneurial activity at the community level. These processes are meant to encourage participation of community members in an array of livelihood activities that build the overall wealth of the community. Assuring vibrant livelihood activity at the community leveldepends upon the probability that there are direct benefits for participating with minimal costs (marginal utility value) all accompanied by strong risk mitigation.Such a picture would be one that portrays local markets as bustling with entrepreneurial activity. A look at other programs both near and far might help us form a vision of what may be possible.We see that the services that are provided are of two kinds; building the benefits through *capital enhancement* and *risk mitigation.*

Capital enhancement programs may include solidarity groups, village savings schemes, basic education and workforce skills enhancement, value chains, producer and consumer associations, property title registration, marketing services, construction of roads and communication systems and affordable housing and medical service associations. *Risk mitigation* programs may include improved health services, insurance and indemnification schemes, improved personal and property security, collateralization schemes, business planning assistance, information services, and transparency in governance with sound policies in place.

We offer six different models that have been tried in other places that could be considered for Armenia. What is similar among all of these programs is that the umbrella organization does not initiate, manage or control any of the local programs. The programs are owned and managed by local stakeholder membership groups. They approach the local practitioner of the umbrella organization for assistance according to their timetable and identified need. The parent organizations provide training, technical assistance, intermediation and, sometimes, function as an apex loan fund.

4.1 BinaSwadaya, Indonesia

Located in the Pancasila region of Indonesia, BinaSwadaya was founded in 1954 by the Pancasila Farmers Association and was originally named "Peasant Socio-Economic Development Foundation." It is comprised of laborers, farmers, fishermen, paramedics and entrepreneurs. The organization offers an integrated mix of services in six key areas:
1. Community Empowerment: Regional development activities that include Public Health, Sanitation, Environment, Farming extension. They also carry out applied research, training, consultation, and facilitation. There is an Educational and Training Center, a Center of Studies, and an outreach office)

2. Micro Finance Development: Micro Finance Services are delivered through both Banking and Non-Banking institutions; reaching the poor and the marginalized using rural savings and credit schemes.

3. Agribusiness Development: They carry out product marketing activities and value added farm production facilities, introducing quality control standards, product labeling and even opening franchised farm shops.

4. Development Communication: There is a supply of information that reaches out to the field using magazines, newspapers, books, radio and TV programs, and DVDs.

5. Alternative Tourism Development: They organize tour programs around cultural events, assessing potential of local historical, cultural and natural resources to create educational, cultural and environmental tours, creating a local hospitality industry.

6. Institutional Support: They have created a printing industry that competes for off-shore contracts as a means of generating institutional income. They have also constructed good training and workshop facilities that can be rented out when not in use by the BinaSwadaya.

These combined activities have led to the building of livelihood strategies including financing for housing, healthcare, school fees and other fundamental items. They have given considerable attention to creating a business model that may include value chains, consumer and producer cooperatives, quality control and managing innovation. They have created social networks built upon trust using such methodologies as thrift institutions, shared services, social events and group lending. The whole process is catalyzed by trained practitioners who facilitate group processes and assure transparency and effective information management.

4.2 Basix, India

BASIX, formed in 1996, operates in seventy districts in India, serving over 436,807 households. Its mission is to work with the rural poor to promote sustainable livelihoods through the provision of integrated financial services packaged together with technical assistance. The corporate structure of BASIX is comprised of five companies, each tasked with different responsibilities.

1. **Basix, LTD** is a holding company that channels equity and debt investments from the capital markets to the group companies. It is able to go out and seek competitive investment capital.

2. **Samruddhi** is a Non-Bank Financial Company (NBFC), registered with the Reserve Bank of India is owned by major financial institutions. Besides being engaged in micro-credit, it retails insurance and also provides information services and technical services to it customers.

3. **Krishna BhurmaSamruddhi Local Area Bank, Ltd** provides micro-credit along with a variety of savings services in three districts. It offers door-step services for those living in inaccessible rural areas. It also provides business development services for farmers.

4. **Indian Grameen Services (IGS)** carries out participatory action research in the production, processing and marketing of cotton, soybean, vegetables and groundnuts. They are also studying new techniques in rural electrification and irrigation.

5. **SarvodayaNano Finance Ltd** organizes over 22,300 women's Self Help Groups which provides information, small loans, networking and empowerment programs.

Through each of its programs it offers its constituents six kinds of life insurance that covers all credit customers, savings and deposit holders and members of the Self Help Groups. It also offers livestock insurance, insurance for non-farm enterprises and insurance to protect farmers against devastating rainfall. And it offers a form of health insurance that covers critical illnesses and disabilities.

4.3 Integrated Services,Alcance,Mexico

Freedom From Hunger, an NGO located in Davis California works with local NGOs in over thirty countries to offer a mix of education, credit and health management at the bottom of the economic ladder. Most recently they are work with *Reach Mexico (a.k.a. Alcance)* to offer a mix of services to financial institutions serving the poor. They see no incongruities in mixing financial matters with livelihood issues such as health and education. They offer three separate models for delivering integrated services.

a) Linked: Services can be provided by two independent organizations, if good-quality financial and non-financial service providers are operating in the same service area and are willing and able to serve the same clients. In this linked services model, the financial service provider does not directly provide non-financial services; it partners with a non-financial service provider

b) Parallel**:** A more integrated approach is the delivery of parallel services by two programs of the same organization. An organization committed to providing multiple services could create two distinct programs with separate, specialized personnel who share the same organizational name and, perhaps, the same physical and administrative infrastructure. Using the example of health services again, an organization might elect to run parallel programs employing specialized health educators and care providers to offer health services to their clients while employing separate banking staff for financial services.

c) Credit with Education: The third option is to fully integrate financial and non-financial service delivery. The same staff of the same organization provides multiple services to the same clientele. In the case of health, credit officers would also provide health education services to their village bank clients.

1. Health Service Providers: In many countries in the world people pay traditional healers for a variety of personal services. FFH provides loans to these entrepreneurs to purchase a variety of health protection and sanitation products while providing them with training in the delivery of a number of prevention and treatment services.

2. Health Savings Accounts: In many cases families are hesitant to seek out medical assistance because of prohibitive costs. FFH works with community groups to set up separate health savings and loans accounts that can be drawn down to pay for common illnesses predefined health services. This program is complemented with learning sessions to help people better understand and utilize existing public and private health services.

3. **Health Consumer Cooperatives:** Simultaneous with the health savings and loan programs, FFH works with local groups to negotiate agreements and contracts with private and public health services. These agreements help public and private health services to increase their coverage, to complement and coordinate delivery of services and to recover costs by developing an effective market plan.

4. **Policy Development:** Working with ministries of health and rural development, FFH is working out new forms of health care delivery that are integrated into a variety of fee-for-service programs.

5. **Scojo Foundation:** One example of a health issue that impacts upon local economic development is that many people are sight impaired, thereby preventing them from carrying out routine tasks (such as sewing, reading). Working with the Scojo Foundation, an organization concerned with the distribution of eye glasses, FFH has created a new market for micro-entrepreneurs who sell glasses. Using a form of a franchise model, they provide the entrepreneur with the training, the supplies and a start-up loan. Glasses restore, not just vision, but productivity.

4.4 AgVANTAGE (ACDI/VOCA), Georgia

Working with local community stakeholder groups, AgVANTAGE provides skills training, institutional development, technology transfer, improved access to credit and facilitation in forming partnerships. It is concerned with both process, such as citizen participation and concrete outcomes to produce tangible results.

1. **Value Chains:** In order to increase export sales of Georgian products, AgVantage identifies new markets for specific products and then works with local stakeholders to strengthen their capacity to compete in them. Working through the market value chains, the project strengthens weak market linkages and improves the production, processing and marketing capacities of Georgian small producers and processors to help the agricultural sector compete in the international arena. Since the beginning of the project, new export markets for Georgian agricultural products have been developed in Ukraine, Russia, the U.K., Poland, Germany, Italy and the Baltic states. Through the development of competitive market value chains, the project has facilitated over $23 million in increased export sales.

2. **Marketing:**A marketing brand, "Taste of Georgia" was created that included information about the country, its history and culture in order to publicize Georgian food and wines for export opportunities. It also organized a media tour of the country for travel writers as well as the country's first wine festival.

3. **Producer Associations:**Over thirty-nine producer associations and cooperatives were formed with 5,810 members. They were given training and study tours for producers to learn from each other. As a result, 10 new products and 123 crop varieties were introduced to the country. New value-added processing technologies were introduced.

4. **Information Systems:** AgVANTAGE provides Georgian producers with the latest marketing information and links to both suppliers and buyers. Electronic bulletins and newsletter provides information on best practices.

5. **Financing:** There is a leasing option in order to promote access to agricultural equipment. There is also credit and technical assistance available for the purchase and maintenance of equipment.

6. **Policy:**AgVANTAGE provides assistance to the Ministry of Agriculture in order to develop long-term food production, processing and marketing strategies. It even established a legal framework in compliance with the EU and the WTO.

4.5 Village Savings and Loans Associations (VSLAs), Global

VSLAs currently are in operation in over forty countries. Both CARE/USA and Oxfam USA are the major proponents of this model. A VSLA is a self-selected group of 10 to 25 people who invest their savings in a loan fund from which members can borrow. Members can save in different amounts, varying their contributions according to their disposable cash (as little as $0.10/week), and may withdraw their savings whenever they wish. Loans are paid back in an agreed period of time, but at a rate of the members' choosing. There are several advantages:

1. **Independence**: VSLAs are independent and self-managed. They are not linked to external sources of credit. The loan capital comes from the group savings. After the group reaches a point of maturity they may make a group decision to seek capital from an apex fund.
2. **Transparency:** All transactions are carried out at meetings in front of all the members, to ensure transparency. All the terms and conditions relating to financial transactions are decided by the members. To ensure that transactions do not take place outside the regular meetings (and that passbook records are not altered), a three-lock cash box, is used and the keys held by different members between meetings.
3. **Encourages Thrift:** At the end of an agreed period (usually a year), the accumulated savings and interest earnings are shared out amongst the members in proportion to the net amount that each has invested. Thus, all of the original capital and interest earnings stay in the community (which is not the case with MFIs). Members consider this to be one of the most attractive features of VSLAs. Annual returns on savings average 40%.
4. **Group Managed:** To eliminate the need for external support and improve transparency, each group is trained in a uniform and simplified record keeping system. In fact, there is even a system available to be used by non-literate groups. There are individual passbooks, all transactions are witnessed and no ledgers are needed. VSLAs share out their entire stock of capital and accumulated profits at the end of an annual cycle. Over time, however, large amounts may be mobilized. VSLAs older than 4-5 years routinely manage portfolios in the $2-5,000 range, with some managing up to $10,000. This can call into question the need for external capital.

4.6 CARD, Philippines

The Center for Agriculture and Rural Development (CARD), is the winner of the 2007 Prize for Excellence in Community Economic Development awarded by the School of CED at Southern New Hampshire University. It considers itself as a membership organization where its client/stakeholders are represented through elections on its governing board. Since its inception it has grown into one of the largest development institutions in the region. It offers its clients a variety of financial and non-financial services by way of a group of five ‘mutually reinforcing institutions.”

1. **CARD as an NGO:** Using the Grameen Bank as a model, CARD offered landless villagers small loans collateralized by group accountability rather than tangible assets. It became clear right from the beginning that these programs were more than about the money. It introduced women to a world where networks and group identity, respect and reputation, skills and knowledge, and ingenuity and entrepreneurship were recognized for their primary cultural and social value.
2. **CARD Bank:** This is a formal banking institution owned, controlled and managed b the landless rural poor. It is a means of capturing as much of the local capital as possible and keeping it in the community. Opening a bank that offers savings opportunities ensures that the money deposited, no matter how modest, is reinvested back in the community.

3. **CARD Mutual Benefit Association:** This works like an insurance scheme. Money is collected in one large pot by a large pool of members and made available in the event of agreed upon circumstances. People put the money into the pot without any guarantee that they will ever benefit personally. And yet they are willing to pay this premium for the reassurance that they are protected from the risk of catastrophic loss. Having such protection against risk allows them to become far entrepreneurial.

4. **CARD Development Institute:** This program began by providing training to CARD staff in management and microfinance. The CARD branched out to offer a variety of practitioner-led training services for four rapidly growing markets: CARD staff, CARD members (stakeholders), external organizations in the region seeking innovative development methodologies, and individual micro-finance practitioners seeking advance education in applied micro-finance. CARD now collaborates with SCED/SNHU to offer a Masters Degree in Community Economic Development.

5. **Business Development Services Center:** Many of the members expressed a need for marketing assistance. The program helps members identify buyers of their products, open new markets and eliminate the cost of the middleman. Eventually it became involved in bulk purchasing for products common to all its clients. Then it became involved in testing innovative processing techniques and linking the members into lucrative value chain opportunities.

Through their specialized practices, each of the above organizations offers a variety of tangible and intangible assets needed to build the capital essential for generating wealth in poor communities.

Table 1. Typology of selected microfinance and community development programs

	PRACTICE	ADVANTAGES
Capital Enhancement	Solidarity Group Lending	Creates an intangible asset: builds trust. Provides personalized collateral
	Village savings schemes	Self-help groups, amasses local savings for lending to members
	Basic education	Encourages financial literacy & local empowerment particularly among women & other marginalized groups
	Workforce skills enhancement	Creates new intangible assets fostering new entrepreneurial activity
	Value chains	Adds market value to the original product
	Producer and consumer associations	Leverages optimal pricing; lowers costs
	Property title registration	Creating negotiable assets in the community

	Marketing services	Opens new income opportunities by increasing sales
	Infrastructure (roads, communication)	Build new tangible community assets by linking with outside markets
	Housing & health service associations	Adds both tangible and intangible assets by improving social capital
Risk Mitigation	Health services	Eliminates hazards, builds confidence in the future, prevents disease.
	Insurance & indemnification	Prevents catastrophic loss
	Personal Property security	Builds confidence and willingness to invest in equipment
	Collateralization schemes	Opens up new avenues for outside capital
	Information services	Enhances avoidance of risky situations
	Business planning assistance	Lessens faulty planning and unanticipated consequences
	Good governance	Eliminates rent-taking and fraud

5. Linking education with community enterprise development: the emerging model

The Country Strategy Paper of the Republic of Armenia for 2002-2006 has conducted "…a thorough assessment of the policy agenda and political and socio-economic situation of Armenia." It recommended a focus on two priority areas:

> (1) support for institutional, legal and administrative reform, including implementation of the EU-Armenia PCA [Partnership Cooperative Agreement] reforms in the field of higher education; development of information technologies; strengthening the effectiveness of vocational education and training; flanking measures in support of the EU Food Security Programme; (2) support in addressing the social consequences of transition, in particular through investment in the education sector.

The reports goes on to say "There is a need to link education and training to the labour market. At the institutional level, the policiesof the Ministry of Education and Science and the Ministry of Social Security (Labour) require betterharmonisation."

In all of the examples presented in the section above, each of the programs contains an effective element of education. However, it does not take place in formal educational institutions. Community Enterprise Development programs provide small-scale entrepreneurs with opportunities for information sharing, skills development, participatory practice and learning, capacity building, community-based research and business support services.

Paolo Freire (1972) in his seminal work Pedagogy of the Oppressed, talks about the way adults learn. He describes how ordinary working people, through non-formal education, learn skills relevant to their efforts at building their livelihoods. They learn most effectively when those skills bring about immediate change in the quality of their lives. Social and economic change begins with individuals reflecting on their values, their concern for a more equitable society, their ability to support their family and their community and to put food on their table. While the PCA may focus upon a formal educational system intent upon leading Armenia into the 21st Century, much of the economy will be built upon the experiential learning of a workforce (particularly in the rural areas) that will never enter a classroom. How well that workforce actually participates in the economy will be the real test of Armenia's economic development. A rigorous practice of Community Enterprise Development carried out by a well formed cadre of CED practitioners can impact upon a large segment of the population that even the most enlightened educational system will never reach. Financial literacy, business planning, informational exchanges, peer lending practices, community-based research, and market analyses, together with a combined program that offers risk mitigation, asset building and value chains can prepare micro-entrepreneurs to respond to market opportunities. With latter-day practices of international corporations outsourcing manufacturing and services through a highly sophisticated system of flexible manufacturing networks, a responsive scaling up of the micro-enterprise sector could very well become the best option for job creation. Building the tangible and intangible assets of communities at the base can be the best assurance of a sound foundation for the Armenian economy.

Such an effort will require the building of a cadre of well-trained CED practitioners. Such a practice requires a mix of skills that include community organization, micro-finance, non-profit management, adult education, participatory research, development economics, marketing, business planning, project design and management and a number of other skills and practices that can assist local community stakeholders in building local assets that lead to capital mobilization and wealth creation. Training such a cadre will require a mix of classroom learning that goes together with field practice. Graduates of such a program will be expected to demonstrate ability to work with stakeholder groups and an emerging body of community-based organizations and Armenian and international NGOs.

In conclusion, we propose to engage a network of higher learning institutions and NGOs to introduce transparency, accountability, and knowledge generation within a sector of the economy that will not be reached through traditional education and skills development channels. In this paper, we have made the point that once given both a safety net of risk mitigation initiatives and an opportunity for local resource management, a rich vein of local entrepreneurship will emerge that would otherwise be overlooked. A national program supporting community enterprise development will draw upon assets within communities (particularly in the rural areas) that without such a program could risk being cut off from the formal sector of the economy. We propose the next step is to support an effort on the part of higher education institutions and other training organizations in Armenia[3] establish a Center for the formation and support of CED Practitioners. Such an initiative can offer an effective strategy for nurturing innovation in building local level operational capacity and institutional capacity that affects all productive sectors in Armenia, including microfinance and the private sector. Such a program would partner with other institutions that are carrying out similar work in the United States, Africa, Canada, and Asia.

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[3] Universities that could become part of this initiative include the American University of Armenia, Yerevan State University; training institutions can include NGOs and MFIs in Armenia that have engaged or are currently engaged in training in specialized fields, and private organizations that are offering training for the labor force. At the regional level there are also institutions that could become part of a CIS-wide effort.

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