

Master Report

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ABBREVIATIONS

AAA	Armenian Agricultural Academy
ABA/CEELI	American Bar Association/Central and Eastern European Law Initiative
AED	Academy for Educational Development
AIHA	American International Health Alliance
ANPP	Armenian Nuclear Power Plant
ASME	USAID's Agribusiness SME Market Development Project
BBP	Basic Benefits Package of health care
BDS	Business Development Services
CBA	Central Bank of Armenia
CIS	Commonwealth of Independent States
COE	Council of Europe
CRS	Catholic Relief Services
DFID	Britain's Department for International Development
D/G	Democracy and Governance
DSRO	USAID/Armenia's Democracy and Social Reform Office
E&E	USAID/Washington's Europe and Eurasia Bureau
EQZ	Earthquake Zone
EREO	USAID/Armenia's Economic Restructuring and Energy Office
FY	Fiscal Year
GDA	Global Development Alliance
GDP	Gross Domestic Produce
GOAM	Government of Armenia
GTZ	German Development Agency
HCD	Human Capacity Development
HMIS	Health Management Information System
HSBC	Hong Kong and Shanghai Banking Corporation
ISSC	Integrated Social Service Center
MAP	USDA-managed Marketing Assistance Project
MFI	Microfinance Institution
MOH	Ministry of Health
MOSS	Ministry of Social Services
NBFI	Non-bank Financial Institution
NGO	Non-government Organization
NHA	National Health Accounts
NK	Nagorno-Karabakh (region of Azerbaijan)
OSCE	Organization for Security and Cooperation in Europe
PAYGO	Pay-as-you-go pension system; the first pillar of a three pillar system
PADCO	Planning and Development Collaborative Intl. (the prime contractor for USAID's Social Transition Program)
PC	Personal Code
SCF	Save the Children Fund
SHA	State Health Agency

SIF	State Insurance Fund
SME	Small and Medium Enterprise
SRO	Self-Regulating Organization
STI	Sexually Transmitted Infection
STP	USAID's Social Transition Program
UMCOR	United Methodists Committee on Relief
UNHCR	United Nations High Commission on Refugees
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
VETE	Vocational and Technical Education

I. Executive Summary

As the analytic foundation for the design of its new five-year strategy (covering fiscal years [FY] 2004-2008), USAID/Armenia conducted a series of sectoral assessments and program evaluations. This Master Report not only summarizes the key findings, conclusions and recommendations of those reports, but also takes a broader look at the reports and identifies cross-cutting themes, potential synergies and other factors that should be considered during the strategy planning process.

Under its FY1999-2003 strategic plan, USAID/Armenia continued to emphasize macro-level reforms--an emphasis that had begun in 1995 as the humanitarian crisis in the country began to lessen. The FY99-03 strategy, however, also added a new, balancing "bottom up" emphasis through more direct attention to expanding grass roots assistance. This new emphasis was added both in response to USAID's concern that widespread poverty could potentially lead to unrest and in recognition of the fact that successful economic and political reforms require public understanding, participation and support.

Over the FY99-03 strategic period, USAID's short-term interventions successfully reached targeted vulnerable groups. Longer-term interventions also produced significant results, particularly in improving the legal and regulatory framework across all sectors. With only a few exceptions, Armenia now has a legal and regulatory framework consistent with a free market economy and a democratic political system. Less progress was made, however, in implementing and enforcing this legal framework. While achievements were noteworthy, the general standard of living in Armenia did not materially improve during the FY99-03 period, indicating that (1) the benefits of long-term reforms are not yet reaching the general populace and (2) there is a continuing need for short-term interventions with a people-level impact.

As it develops its strategy for the FY04-08 period, USAID can build not only on its previous efforts and lessons learned, but also on Armenia's many assets. Armenia's macroeconomic stability since 1993 offers a much more positive base for economic development than is found in most countries in which USAID works. To complement this, the country's relative stability from conflict indicates that USAID can push hard for reforms with little fear of destabilization or violence. In addition, the large group of overseas Armenians is potentially an important source of income, investment and expertise for the country. Furthermore, Armenia's well-educated population is a tremendous resource that, with targeted skill building and retraining, will quickly be able to productively participate in new economic and political opportunities, as they arise.

While Armenia's potential is clear, USAID faces significant challenges in its efforts to support economic and political reforms. Chief among these are the interrelated issues of a dominant executive branch of government, rampant corruption and chronic unequal application of the law. These are both fed by and reinforce a lack of public awareness, the unavailability of quality information and widespread frustration and pessimism among the general population. Political difficulties have also resulted in Armenia being isolated and energy dependent, constraining exports and growth.

In reviewing USAID's current programs vis a vis the development challenges articulated in the assessments, a small number of programmatic gaps appeared. Some, such as civil service reform, are being addressed through other donor programs and may not require USAID support at this time. Others, like education, have not in the past been part of USAID's strategy, but perhaps should be considered in some limited way in the future strategy. The two gaps that stood out as meriting serious consideration for inclusion in USAID's new strategy were *labor* and *youth*. Increasing employment is key to reducing poverty, yet, to date, USAID has only been nominally involved in employment, unemployment and the labor market. Youth, who represent Armenia's future, have not been specifically targeted under any USAID programs and are increasingly becoming disillusioned with their country and its future. A labor market study was carried out in early 2003, which provided potential options for USAID involvement in fostering a more efficient and transparent labor market. While no studies of youth are currently planned by the mission, this author recommends that USAID/Armenia conduct such a study.

Given USAID's past programming efforts and the evolution of events in Armenia, there are a number of areas that appear to offer new opportunities for USAID involvement. For example, Armenia recently became a member of the Council of Europe. To maintain its membership, it must adopt certain constitutional amendments and new laws and make changes in existing laws. USAID could assist the Government of Armenia (GOAM) in meeting these requirements, thus supporting a key GOAM goal while also promoting reforms that would have a cross-cutting impact on virtually all USAID-supported programs. Capitalizing on the momentum emanating from the ongoing development of a GOAM anti-corruption strategy offers another target of opportunity. This strategy, which began with a proposal prepared for the GOAM by a group of Armenian and international experts, is currently being reviewed and revised by the GOAM, with a final version anticipated during calendar year 2003. USAID could support part(s) of the strategy or design its own anti-corruption activity to complement the strategy. Other emerging opportunities include support for the new Economic Courts, court monitoring, second-generation treasury reforms, HIV/AIDS, intergovernmental transfers, the judiciary and lawyers, and support for the development of a unified national vision.

In addition to emerging opportunities, a holistic review of USAID's assessments helped identify activities that might work together synergistically. Simultaneously working on both an integrated tax system (that includes social insurance tax contributions) and pension reform allows each program to reinforce the other. Activities to support the development of a collateral law and activities to strengthen micro finance have the potential to work together to stimulate micro, small and medium enterprise growth as well as agricultural sector development. An anti-corruption activity in one sector could complement reform activities in that same sector to have an impact of larger magnitude than either working alone. Similar synergies might also be achieved between local government programs and intergovernmental transfers; between the development of participatory policy development mechanisms, civic education and NGO strengthening; and between labor sector interventions and sector growth strategies. Adopting a more strategic approach to human capacity development would also improve synergies.

While USAID/Armenia's assessments and evaluations identified challenges, opportunities and potential synergies and made many excellent recommendations, they also raised a series of issues that the mission must confront in its strategy development process. As an initial step, in

February 2003, mission staff participated in the development of a new vision statement for its new strategy. "Collaborate with Armenian partners to achieve a healthier, more democratic, and more equitably prosperous Armenia" was selected as a working draft statement to guide the strategy development process. With this statement in mind, the mission must now consider what is within its manageable interest. Needs are great and many opportunities have been identified. Which should USAID take on? And what type of balance should the mission strike between working with the GOAM and working with non-government institutions?

At the sector level, there are even more questions to be answered and decisions to be made. Key issues include whether the integrated approach to health and social sector reforms should be continued, what type of strategic approach USAID should adopt to promote good governance, how USAID should approach anti-corruption and whether NGO strengthening should play a larger role in the new strategy.

It is the author's hope that this Master Report, coupled with the findings, conclusions and recommendations of the mission's assessments, will augment the vast store of knowledge and experience already held by the USAID/Armenia staff, enabling them to develop a truly "strategic" strategic plan that will make a positive contribution to Armenia's future.

II. Introduction

A. Purpose of the master report

As the analytical foundation for the design of its new five-year strategy (FY2004-2008), as of May 1, 2003, USAID/Armenia had completed nineteen sectoral assessments, program evaluations and/or draft sector strategies in the following areas:

- Microenterprise services market assessment
- Agriculture sector assessment
- Commercial legal and institutional reform assessment
- Financial sector strategy review
- Labor market evaluation and strategy assessment
- Energy sector assessment and portfolio review
- Environment, including water sector portfolio
- Social Transition Program evaluation
- Pension reform assessment
- Health strategy assessment
- HIV/AIDS situation analysis
- Proposed HIV/AIDS/STI strategy
- Democracy and governance assessment
- Rule of law/anti-corruption assessment
- Conflict vulnerability assessment
- Education sector assessment
- Human capacity development assessment
- Direct assistance evaluation
- Gender assessment

A planned small and medium enterprise sector assessment had not yet been completed.

This master report seeks not only to summarize the major findings, conclusions and recommendations of the completed assessments, but also to look at them from a broader strategic planning perspective and thus:

- Identify strategic implications of the assessment recommendations
- Identify cross-cutting themes
- Identify potential synergies
- Identify emerging opportunities
- Identify programmatic gaps
- Articulate priority strategic issues and
- Otherwise draw the various assessments together into a synthesized report that can easily be used to inform the strategy development process.

Studies and analyses by other donors and organizations were used to supplement, verify and complement the USAID investigations.

B. Methodology

The author visited Yerevan, Armenia from August 28, 2002, to September 6, 2002. During this period she met with USAID/Armenia mission management, program office staff, strategic objective teams and individual activity managers. At the meetings, the USAID staff provided the author with background information on current programs and progress to date. In addition, they commented on the strengths and weaknesses of the various assessments, offered their own views on future programming priorities for USAID/Armenia and provided other information that they felt relevant to the strategic planning process. While in Armenia, the author was provided with copies of completed USAID assessments and evaluations, scopes of work for assessments not yet completed and assorted related USAID documents. In addition, a number of supporting documents prepared by other donor organizations, non-government organizations or other sources, were provided. A list of the primary documents reviewed in the preparation of this report is presented in Annex B.

Following her visit to Armenia, the author returned to the United States, where all subsequent work was performed. The author read and summarized the assessments, reviewed related documents and drafted the report. Frequent consultations with USAID/Armenia staff took place via email. Drafts of the Master Report were reviewed by the mission and their comments incorporated into subsequent drafts. New information and ideas were incorporated into the report as additional assessments were completed and forwarded to the author. This final draft Master Report covers progress, information and ideas that were generated through May 1, 2003.

III. USAID/Armenia's Strategic Plan for FY1999-FY2003

In April 1999, USAID/Washington approved USAID/Armenia's strategic plan for FY 1999-2003. The plan set forth a long-term vision for Armenia and a strategy for achieving the vision that continued the earlier emphasis on macro-level reforms, while adding a new, balancing "bottom up" emphasis through more direct attention to expanding grass roots assistance.

A. Goals and strategic objectives

Long-term vision: A prosperous and stable Armenia with equal opportunity for all its citizens

Strategic Goal: Creation of employment opportunities--in order to protect macroeconomic reform politically and to attempt to address the high levels of poverty more immediately

Rationale: USAID recognized that the Government of Armenia (GOAM) was taking appropriate steps for both economic and political reform that would, in the long-term, bring growth and prosperity. It believed that USAID should support these efforts. At the same time, it was also clear that the collapse of the economy, border conflicts, and other events had resulted in both widespread poverty and corruption. USAID was concerned that if these problems were not addressed in the shorter term, there was potential for internal unrest. Hence, job creation and social safety net programs were viewed as key to having immediate people-level impact.

Based on this rationale, USAID/Armenia's FY1999-FY2003 strategy supported both longer-term and shorter-term interventions through six strategic objectives.

- **Growth of a competitive private sector**, which focused on creating employment by improving business skills, strengthening the business climate, improving access to broader markets and stimulating local economic development efforts that could demonstrate more immediate employment generation opportunities.
- **Increased investment** through support for improvements in the enabling environment, including: mechanisms to ensure the rules are predictably and equitably applied and enforced; increased access to capital through direct credit programs; an improved banking system; increased access to investment opportunities; the creation of a transparent capital market structure; the development of a land registry system and tax reform.
- **More economically sustainable and environmentally sound energy sector**, with a focus on increased private investment, increased energy efficiency and the development of replacement power projects (to allow for closure of the Armenian Nuclear Power Plant [ANPP]).
- **Laws are enforced and adjudicated impartially**, which aimed to combat corruption by strengthening regulatory agencies and the judicial system and focused on helping ensure the independence of the judiciary and supporting the enforcement of court orders.
- **Increased citizen participation in the political, economic and social decision-making process** by strengthening political processes, increasing citizen advocacy, enhancing the circulation of information and increasing government accountability and responsiveness to citizens.
- **Strengthened social safety net** by supporting improvements in the effectiveness and efficiency of basic service provision, improving social protection systems and piloting regional health care systems.

As the strategy was implemented, USAID/Armenia responded to emerging opportunities, challenges and successes and made modifications, as necessary. Key changes adjustments include:

- The first two strategic objectives were merged into one to better capture their symbiotic relationship and reflect progress in the area of privatization. Efforts to support the privatization of state-owned holdings phased out in FY2002. Continued priorities under the combined strategic objective included improving the enabling environment for private sector growth, increasing access to capital and increasing the capacity of private enterprises.
- To improve program management, the two democracy/governance-related SOs were merged into one. By articulating the strategic objective in terms of transparent, accountable and responsive democratic governance, the strategic objective captured the dual focus on rule of law and the justice system.
- In an effort to move away from direct assistance toward longer-term development objectives, the social safety net strategic objective was re-defined as "mitigation of adverse social impacts of the transition"
- Two special objectives were added:
 - More sustainable water management for enhanced environmental quality
 - Households living in inadequate shelter as a result of the 1988 earthquake reduced

By late 2002, the mission strategy was being implemented through five strategic objectives and two special objectives:

SO1.3: Growth of a competitive private sector

SO1.5: A more economically and environmentally sustainable energy sector

SpO1.6: More sustainable water management for enhanced environmental quality

SO2.1: More transparent, accountable and democratic governance

SO3.4: Mitigating the adverse social impacts of transition

SpO4.1: Households living in inadequate shelter as a result of the 1988 earthquake reduced

SO4.2: Cross-cutting and special initiatives

B. Progress against the strategy

For the most part, USAID/Armenia met the targets it set for itself under the various strategic objectives. As of December 2002, key accomplishments include:

SO1.3: Growth of a competitive private sector:

- Privatization of all targeted state-owned enterprises took place and efforts in this direction came to closure.
- Land titling was basically completed
- The drafting and advocacy of several important laws enhancing the legal and regulatory framework affecting private sector activity were supported, including the Customs Code, the GOAM Procurement Law, the Land Code, the Labor Code, the Law on Bankruptcy of Banks, the Law on the Central Bank and the Law on Securities Market Regulation.
- Implementation of various laws was strengthened
- Tax systems were automated, resulting in increased tax revenues
- GOAM budgeting and accounting systems were strengthened
- The banking sector was strengthened
- The Armenian stock exchange was registered as a self-regulating organization (SRO) and the Central Depository of Armenia was privatized

- Micro-enterprise loans enabled micro-entrepreneurs, the majority of whom are women, to invest in and improve their businesses
- Firm-level assistance was provided to SMEs, especially in the agribusiness sector
- Targeted enterprises not only created new employment opportunities, but also increased the value of Armenian exports
- Three Computer Learning Centers to strengthen information and communication technology education were developed

SO1.5: A more economically and environmentally sustainable energy sector

- Electric distribution companies were privatized (although somewhat irregularly)
- A new Energy Law was passed
- Key steps in establishing a secure and accurate system for measuring network flows of power and ensuring a transparent system for managing financial flows were made (thus minimizing energy theft and reducing corruption)
- The groundwork for diversifying energy sources was completed
- The Armenian Energy Regulatory Commission was strengthened
- Schools, hospitals, orphanages and homes for the elderly were weatherized

SpO1.6: More sustainable water management for enhanced environmental quality

- The new Water Code was adopted and water management institutions were established
- A water quality and quantity monitoring strategy was developed
- Water monitoring for two water basins was initiated
- Stakeholder and public participation in water management increased

SO2.1: More transparent, accountable and democratic governance

- Increased dialog between non-government organizations (NGOs) and the GOAM on issues of mutual interest took place
- Citizen involvement in local problem solving increased
- The quality and financial independence of the media were strengthened
- The legislative framework for local governance was strengthened
- Transparency, accountability and efficiency in nine pilot cities was supported

SO3.4: Mitigation of the adverse social impacts of transition

- Key legislation and normative acts to support improvements in the pension program and introduction of the personal code (PC) were prepared, including:
 - Law on Personal Code was passed by the National Assembly and signed by the President
 - Personal Privacy Protection law was passed by the National Assembly and signed by the President
 - Pension Reform law passed all three required readings in the National Assembly
 - Mandatory Health Insurance law was drafted and hearings are planned
- The health management information system (HMIS) was designed and will be implemented when computers being procured by the World Bank are delivered
- A demographic and health survey was conducted and the results widely disseminated
- An initial draft of the new strategy for health care reform was developed by the GOAM
- The GOAM's strategy of strengthening primary care was supported
- Nutrition and employment for vulnerable groups was provided

SpO4.1: Households living in inadequate shelter as a result of the 1988 earthquake reduced

- Housing certificate mechanism was successfully piloted, with 302 families purchasing homes under the mechanism
- Based on the pilot, the larger Earthquake Zone (EQZ) Recovery Program, which will assist up to about 7,000 families with permanent housing through certificates and grants, began implementation

SO4.2: Cross-cutting and special initiatives

- A regional water activity to strengthen dialogue between the South Caucasus countries on regional water management produced agreement on five activity areas. Activities in these areas began.
- Individuals from GOAM agencies, NGOs and the private sector received training in skills needed to support the mission's strategic objectives
- The Eurasia Foundation carried out an active program of support to small businesses, civil society and the media
- The October 2001 census was supported

C. Conclusion

USAID/Armenia's FY99-03 Country Strategic Plan recognized that its long-term vision, a prosperous and stable Armenia with equal opportunity for all its citizens, was not achievable during the planning period and that no "quick fixes" were available to meet Armenia's development needs. Instead, the FY 1999-2003 strategy predicted that, by end of strategy, "Armenia will have largely completed its 'reform' phase of development, having put in place most of the institutional (legal, regulatory and, most importantly, enforcement) structures necessary for a free market economy, a democracy and a sustainable social safety net system. In its "Phase II Reforms" of development, Armenia will need to place more emphasis on the implementation of the reforms and enforcement mechanisms it has put in place, for example, encouraging more rapid private sector economic expansion, solidifying political pluralism and public advocacy, and capitalizing social insurance systems." These predictions have proved to be true, with important steps having been taken under the strategy, but with significant progress still required before the long-term vision will become reality.

At the program level, USAID/Armenia's longer-term interventions, which were aimed at systemic reform and institution building, produced significant results. Much needed improvements in the legal and regulatory framework took place across all sectors. With only a few exceptions, Armenia now has a legal and regulatory framework that is consistent with and supports a free market economy and democratic political system. As anticipated, less progress was made in implementing and enforcing the legal framework. Enforcement structures are not yet in place in many sectors and implementation of those structures that do exist is weak.

USAID/Armenia's shorter-term interventions successfully met the more immediate needs of targeted populations. Vulnerable groups were directly reached, children were fed, and many of those living in temporary housing in the earthquake zone were housed. While those reached

represent only a fraction of those Armenians in need, they are quite significant when viewed as a supplement to the various other programs financed by the GOAM and other donors.

Although program goals were met, the general standard of living of the population did not materially improve over the course of the strategy, with the World Bank estimating that 50.9% of all Armenians still live below the national poverty line. Clearly, there is a great need to focus on ensuring that the benefits of systemic reforms reach the general populace and a continuing need for short-term interventions that help alleviate the desperate situation of the poor.

IV. Armenia's Development Environment

A. Armenia's assets

1. Low risk of conflict

In spite of features which suggest relatively high social, political and economic risks of conflict, Armenia is actually a relatively stable country with low conflict vulnerability. USAID and the United States Government can therefore push quite hard for fundamental reforms to produce competition in the political and economic system with little fear that destabilization might lead to violence in the short term.

2. A well educated population

Virtually all Armenians are literate, with approximately 80% having completed high school. School attendance among primary to middle school-aged children is high in both urban and rural areas and there are no significant differences by gender. As students reach secondary school (15-16 years of age), attendance declines, particularly among males. However, completion rates remain high. Several institutes of higher education exist in Armenia, resulting in some 26% of urban women and 29% of urban men having a university education.

While literacy rates are impressive, the quality of education received and its relevance to Armenia's current economic and political development is a serious issue. Many members of the labor force, trained during Soviet times, have obsolete skills and inflexible attitudes. Others have received strong theoretical training, frequently in narrowly defined, highly specialized fields, but have less skill in practical, problem solving techniques that would help them survive in a competitive marketplace.

Since the transition, Armenian schools have undertaken some reforms, but basic approaches to teaching and learning have not changed substantially. As a result, Armenia's education facilities are still not adequately providing young people with the education and skills required to succeed in a market economy and participate in a democratic form of governance.¹

¹ This issue is complex. While young people need to receive a good education and training, clearly there must be jobs available for them to be able to use their skills. Currently, the lack of employment opportunities in Armenia results in many highly skilled specialists and well-educated people being unable to find employment using their skills and specialties. They therefore frequently either work as unskilled laborers or, especially men, emigrate.

To capitalize on Armenia's educated population, widespread skill building, retraining and retooling are needed that will enable Armenians to meet the changing demands of the labor market and fully participate in nation-building.

3. History of entrepreneurship and good work ethic

Historically, Armenians have been considered businesspeople. As a crossroads between Europe, Central Asia and the Middle East, Armenia, many may perceive it as ideally situated to be a center of commerce. To complement its strategic geographic location, Armenians reputedly have a strong work ethic and are willing to work for any employer that offers a decent wage.

4. Potential for Diaspora investment in country

The estimated five million Armenians that live outside of Armenia are an important source of potential investment and income for the country. Current assistance from this group has included everything from cash transfers (mainly to family members) to the provision of food and clothing to the construction of a cathedral marking the 1700th anniversary of the arrival of Christianity.

At independence, many wealthy overseas Armenians began to invest in personal businesses, real estate and other commercial operations in Armenia, although true long-term fixed investment has been rare. In addition, the U.S. diaspora began to finance a number of public projects. One particularly important current program is the massive public works funded by a wealthy Armenian American. His grant of \$150 million (equivalent to seven percent of GDP) to rebuild Armenia's infrastructure has put thousands of Armenians to work, even if temporarily.

There is currently concern, however, that the diaspora has become disillusioned with the corruption, lack of enforcement of contracts and slow pace of reform and is pulling out of the country. It appears that this group is now more willing to send funding for charity than for investment. There is confidence, however, that, should the investment environment improve, investments by the diaspora would increase.

In addition to their direct investments in Armenia, overseas Armenians (particularly those in Europe and other parts of the former Soviet Union) are an important source of income for Armenian households. Indeed, observers estimate that annual remittances by the diaspora total between \$100 million and \$400 million--or some 12% of GDP per annum. These remittances not only help families to survive, but also provide them with funds for starting small businesses, buying property or otherwise investing in the country.

5. Macroeconomic stability--and a growing economy

Between 1988 and 1993, Armenia suffered a series of economic blows that caused real GDP to contract by 53% between 1990 and 1993. Since 1993, prudent monetary and fiscal policies have stabilized Armenia's economy and resulted in average real GDP growth of around 6% per year. Inflation has been controlled and the economy is ranked the most open of the Commonwealth of

Independent States (CIS). In spite of these positive aspects, the country is not yet showing sustainable growth patterns. Instead, most of the recent growth is related to recovery of the severe contraction between 1990-1993, rather than to changes in enterprise behavior or investor attitude that would bring long-term economic improvements. It is therefore unlikely that the growth trend can continue much longer. In addition, increases have primarily benefited workers in a few relatively small sectors of the economy that employ a small proportion of the labor force.

6. Multiple agronomic zones

Armenia contains multiple agronomic zones that are conducive to the production of a range of crops and animal products. Extensive high meadows are suitable for goats and sheep, which can supply milk for a variety of good cheeses. Lower flat lands can support dairy cows and grain. The range of elevations and microclimates allow production of several varieties of grapes and tree fruits.

B. Major constraints to development

1. Isolation

The Nagorno-Karabakh (NK) conflict has resulted in the Azeris and Turks maintaining an economic blockade against Armenia. While some highway and rail traffic continues across the Iranian and Georgian borders (and a small amount continues with Turkey), the blockade is having a large negative impact on Armenia's economy and its prospects for growth. The fact that the country cannot access the larger economic zone within which it operated during the Soviet era reduces access to imports (including inputs needed for industry) and makes exports more costly. While Armenia's formal accession to the World Trade Organization on February 5, 2003, will help foster Armenia's integration into the world economy, the geographic constraints will continue to be a barrier.

2. Small internal market

Given that export is difficult, development of an internal market is important for business expansion. However, pervasive poverty in Armenia coupled with the small size of the country severely limits the internal market.

3. Energy dependence

Armenia is poorly endowed in terms of energy resources. In late 1991, Azerbaijan shut the main pipeline transporting Russian gas to Armenia. Since then, a smaller pipeline through Georgia, which is at times subject to disruption, remains the only source of natural gas supply for electricity generation and heating. This situation led to the re-opening of the Armenian Nuclear Power Plant in November 1995. The ANPP is considered inherently unsafe by international nuclear regulatory agencies, despite extensive safety improvement made in recent years. As a result, it potentially endangers the health of all those living within its range, as well as the environment.

While Armenia has significant installed capacity and potential for hydroelectric power generation, increased output from this source caused the water level in Lake Sevan to decline to an ecologically dangerous level, limiting further exploitation.

4. Underdeveloped infrastructure

Armenia's infrastructure, including water, energy, transport and communication, are outmoded and in poor condition. Lack of adequate transportation and the high cost of transportation have been identified as key impediments to the development of a thriving and efficient agricultural sector. Uncertain supplies of energy prohibit industrial output. Poor communications limit business opportunities.

5. Overly strong executive branch/lack of citizen participation

The dominance of the Executive branch of government has reduced competition in both Armenia's political and economic spheres. As a result, rule of law is problematic, political parties are weak and the media is not truly independent. This situation allows national-level leaders to ignore citizens' political, economic and social interests.

Declining standards of living, coupled with rampant corruption and a government that is not responsive to the people, discourage political participation and reinforce citizen's disillusionment with their government. Many Armenians do not believe that civic activism can help resolve their problems. Similarly, participation in the economic sphere is constrained by the heavy hand of the executive, the weakness of the rule of law and the need for government connections to succeed.

Of particular concern is the lack of any institutionalized mechanisms for citizen involvement in the law making process. While there are examples to the contrary, all too frequently there is little participation. This enables the elite to influence policy so that it benefits them, rather than the public. As a result, inappropriate (and even contradictory) laws and regulations are passed that do not support Armenia's political and economic reform process. Furthermore, those affected by the laws have no ownership of them and thus do not feel obliged to respect the law.

6. Corruption

Related to the above, the expansion of corruption is undermining Armenia's economic and political reform process. Both "grand" corruption (misuse of political power for private gain) and "petty" (administrative) corruption are common. Corruption is most often seen in the form of bribes, theft/illegitimate acquisition of assets, clientelism, political corruption and conflict of interest. The main causes of corruption include the fusion of political and economic power and the lack of separation between the public and private sectors. Grand corruption is facilitated by lack of understanding of the role and tasks of the state; the absence of a real distribution of power between the executive, legislative and judiciary branches of government; ineffective public administration; imperfect monetary, credit and tax policy; and general weaknesses in the

institutions of democracy, including civil society. Tradition, low wages, low risk and a weak professional bureaucracy fuel petty corruption.

The impact of corruption is widespread and is directly related to the declining economic condition of the majority and the concurrent enrichment of a small minority. Economically, corruption is deterring productive investment in the economy and the development of an economic system that includes and provides for the majority of the citizens. Corruption also limits Armenia's ability to become integrated into the world economy. Politically, corruption is facilitating the exclusion of the general populace from participation in decision-making processes, leading to apathy and a lack of respect for the government and the law. There is concern that if corruption is not checked, Armenia's political and economic independence could be jeopardized.

In 2000, the GOAM established the State Committee on Anti-Corruption, headed by the Prime Minister with key government ministries as members. The following year, with World Bank support, the Office of the Government funded a group of international and Armenian experts to draft a comprehensive anti-corruption strategy that sets forth the steps required to combat corruption in Armenia. The final report from this group was completed in August 2002 and is now under review by the GOAM, which has completed a first draft "official" strategy. The final GOAM strategy is expected to be complete by January 2003. The international donor community also hosts several working groups on corruption and has presented comments on the "expert group's" proposed anti-corruption strategy to the GOAM. Fighting corruption, however, will not be an easy task. Strong political will on the part of the GOAM, active participation by the general Armenian public and ongoing support from the international donor community will be required. Unfortunately, many of those who are in the strongest position to combat corruption are those who most benefit from it. The low level of development of civil society organizations, political apathy of society and the lack of trust between civil society actors and public officials further hinder progress. On a more positive note, surveys indicate that many Armenians believe that corruption can be reduced and disapprove of corruption in principle.

7. Unequal enforcement of the law

Violation of the rule of law, which is closely linked to corruption, is one of the most acute problems in Armenia. In the economic sphere, irregularities in the rule of law seriously constrain the business and investment climate. For example, laws related to fair business competition are not enforced fairly, there is no security of contracts, and bureaucratic red tape can be used selectively to harass small private businesses.

Within the judicial system, corruption and the strong influence of the Executive undermine the impartiality of the courts. A standard set of procedures is not followed, resulting in inconsistent judgements and a lack of confidence in the judicial process.

8. Lack of public awareness

The Armenia public has a low level of understanding of the law and their rights under the law. Until this changes, the public cannot be expected to exert their rights, demand accountability from public officials or advocate for reforms and change.

9. Lack of quality information

While there is basically freedom of expression in Armenia and opinions are openly stated, the media engages in little in-depth investigative reporting. Similarly, Armenia's think tanks and other professional organizations do not provide adequate critical analysis and information to help political parties, government officials and the public make quality decisions.

10. Pessimism and public disillusionment

Years of economic downturn, increasing corruption, exclusion from decision-making and a myriad of other factors have contributed to widespread frustration and lack of hope for the future among the general population. The high rate of out migration (the population has decreased from 3.8 million in 1989 to 3.0 million in 2001) is one expression of this pessimism. Lack of civic involvement, lack of confidence in the judicial system, an unwillingness to invest in Armenia and the growth of the shadow economy are others. While improved living conditions and continuing reform should help overcome the disillusionment, economic and political progress are more difficult without active support and optimism from the public.

11. Gender disparities

After decades of Soviet rule, Armenian culture still holds firm to patriarchal traditions and gender norms. Both women and men achieve high levels of education and have extensive work experience in the Armenian economy and government. Yet, women are more likely to be unemployed, are paid substantially less and discriminated against in the workplace – and not surprisingly, women-headed households are more likely to be poor. Women are also lagging behind in business ownership, except at the micro level. Few women can be found in elected office or in leadership positions in the private or public sector. Even in an NGO sector dominated by women, men comprise the majority of NGO leaders. Domestic violence is common, but little has been done to address the problem.

For a variety of reasons, Armenian men are more likely to respond to economic difficulties by emigrating, even to take menial employment that would be available at home. This out-migration increases the pressure on women and families left behind, sometimes abandoned when the man decides to make a new life abroad. Gender traditions feed into the decision to emigrate through rigid expectations of the man as a breadwinner who should have a “respectable” profession to ensure the marriageability of the children. Men rarely take on any household work or child-rearing responsibilities, so their sense of worth is limited to having a job. On the other hand, women carry the double burden of both caring for the family and making money.

The result of these gender disparities is not only a human rights issue (as specified in the CEDAW Convention ratified by Armenia), but also an under-utilization of human capacity critical to successful development. In the context of USAID's development program, gender

relations can have both a positive and negative affect on sustainable results. If provided with the adequate training and support, the abundance of educated and skilled women can become an engine for economic and political development - but only if their current barriers are understood and addressed within the context of development programs. Greater economic opportunities should also provide an incentive for Armenian men to choose not to emigrate, a benefit to families and communities throughout the country.

V. Summary of Assessments

A. Key findings and recommendations

Annex A summarizes key findings, conclusions and recommendations contained in each assessment or evaluation conducted by USAID/Armenia. The summaries do not pretend to be comprehensive, but rather focus on points that have strategic implications for the future. As such, they tend to highlight problems that need to be addressed and potential opportunities, with less emphasis on past accomplishments or successes.

The points included in the summaries are those *articulated by the assessment teams*. Inclusion of a point or recommendation in a summary does not necessarily mean that USAID/Armenia is in agreement with the point or that the recommendation will be accepted. Instead, the purpose of Annex A is to present the findings, conclusions and recommendations of the studies in a very abbreviated format to facilitate their review and comparison.

When relevant, notes and/or footnotes have been added to the summaries to indicate questions, areas of disagreement and USAID/Armenia's responses to certain issues and recommendations. Areas of major disagreement with the studies have also been raised in Section VII, Strategic Issues, of this report.

B. Lessons learned

The assessments and discussions with USAID staff identified a number of "lessons learned." For the most part, these are lessons that are already familiar to USAID, but that are worth repeating.

1. The Earthquake Zone Recovery Program demonstrated how using a site-based approach (zones within a city), rather than a list-based approach (a list of eligible families), could stimulate overall economic development within a targeted geographic zone. Its holistic emphasis on "urban life," (not just housing) further reinforced this concept.
2. MOSS/PADCO experience in reducing the number of Poverty Family Benefit recipients and UMCOR's school lunch program that targeted only the most needy demonstrated that families accept new rules (even if they lose benefits) when the rules are carefully explained and the process is transparent.
3. USAID's success with assisting in strengthening the energy regulator provides a good model for working in other areas, such as telecommunications and municipal water.

4. Several activities have shown that USAID can successfully assist in the drafting of new legislation. Implementation of that legislation is a greater challenge, however, requiring longer-term support for institution building and greater attention to systemic change.
5. The absorptive capacity of local partners must be realistically assessed. Limited capacity within the MOH, coupled with insufficient health technical assistance, has left it unable to keep pace with the deliverables expected under the PADCO contract.
6. Training as a stand-alone activity does not always achieve the desired impact. The context/system in which people apply their new skills may also need to be changed.
7. Armenians appear to prefer work over welfare. The Save the Children Fund public works programs demonstrated that direct assistance programs can temporarily avoid welfare dependency if properly designed.
8. Several lessons related to program implementation emerged, including:
 - Successful programs were consistently those that proactively involved the community in which they were working, engaged in transparent decision-making and otherwise ensured the "buy-in" of the customers.
 - The value of good people cannot be underestimated. This includes not only contractors and counterparts, but also "movers and shakers" in the communities in which programs are being implemented.
 - Related to the above, local leadership is extremely important in determining the success or failure of a reform effort. Successful drafting of the Civil Code, the Law on Government Procurement and the Law on Registration of Legal Entities were largely due to commitment by Armenian leaders; the absence of such commitment contributed to the failure of the drafting of an Administrative Procedure Law.
 - Programs have the greatest likelihood of success when working with key institutions that are open to reform--i.e. reform-minded institutions make the best partners.
 - USAID has a tendency to focus too much on process oversight, which leaves inadequate time for technical oversight.
 - When USAID's ability to provide technical oversight is limited (perhaps in a highly technical area), the use of an outside expert can be successful. The USAID mission successfully made use of a USAID/Washington pension advisor to provide an independent expert view of progress on pension reform.
9. NGO-related lessons include:
 - Targeting to the person level is possible at a relatively low cost.
 - Using local NGOs for activity implementation makes USAID funding go further, builds local capacity and increases Armenians' sense of ownership in the development process.
 - Requiring U.S. NGOs to adopt a local NGO partner to strengthen, including a phase out plan for turning program activities over to the local NGO partner, can foster greater local NGO development and complement NGO strengthening programs.
 - At the same time, experience has shown that local NGOs adopted by U.S. NGOs tend to be less independent and more isolated than Armenian NGOs working on their own. Partner NGOs need to be aware of this and take measures to overcome dependency.

- Even when programs are not financially sustainable in the near term, involving local partners in the design and implementation of all aspects of the programs helps to transfer skills to those who remain after USAID funding ends.
- NGOs are best able to establish productive relationships with government at the local level. They are not as successful at the national level.
- Because of their different mandates and operating styles, collaboration between consulting firms and organizations that depend on a high degree of voluntarism (such as Carelift and the American International Health Alliance [AIHA]) is difficult.
- Using NGOs to test new service delivery mechanisms is probably effective only if NGOs are expected to be the users of the resulting information (i.e. the delivery mechanisms may not be appropriate for GOAM entities or for contractors).
- The benefits and lessons learned from AIHA's partnership programs, especially its cross-partnership activities have the potential to be extended to non-partner institutions.²

10. Contract-related lessons include:

- Flexibility is needed: Contracts that are overly prescriptive constrain the ability of the contractor/implementer to respond to unexpected factors in the environment and changing needs. For example, the PADCO contract contains many deliverables and benchmarks, which are beyond the absorptive capacity of the Ministry of Health (MOH). This has caused friction between PADCO (which must meet its contractual obligations) and the MOH (which is overwhelmed). In contrast, the flexibility of the United States Department of Agriculture's (USDA's) Marketing Assistance Program (MAP) and its ability to develop new interventions to address constraints as they arose was cited as a key contributor to its success.
- Required deliverables must be within the contractor's manageable interest: Contractors cannot be held responsible for actions over which they can exert little influence. The rule of law contract with Chemonics made Chemonics responsible for the passage of laws. Laws can only be passed, however, by the GOAM. Chemonics' role was only to advise and assist.
- Focus should not be too narrow: Programs with too narrow a focus result in lost opportunities. Because the bank supervision program was restricted only to supervision, it was unable to take a more holistic look at the banking system and work in areas outside of, but related to, bank supervision. A broader mandate could have resulted in changes that improved the overall environment in which banking supervision activities took place.
- Over-reliance on short-term consultants can reduce program impact: The Chemonics rule of law program made extensive use of consultants to comment on draft laws. Not only was this very costly, but, after the consultants' departure from Armenia, there was frequently no one to follow-up on key recommendations. Hence, the recommendations were not always followed and the consultants' impact was lessened. Having long-term personnel with solid technical knowledge in program areas is both more cost effective and more results oriented than over-reliance on short-term consultants.
- Optimal size: Difficulties with some of the larger contracts (particularly PADCO and Chemonics) have led to questions as to the optimal size of contracts. While large contracts are convenient to USAID from a contracting perspective, they may not be the most conducive to producing results and may be more management intensive. Contracts that involve more than one technical area may be particularly problematic. The mission should

² While AIHA has undertaken some activities to disseminate this knowledge, they should be encouraged to make more efforts in this regard.

seriously weigh potential pros and cons before entering into large contracts in the future. A management audit of current large contracts could provide some lessons learned that might help in future programming decisions.

- Supporting more than one strategic objective: The Chemonics contract, which provided support for both market reform/economic growth and rule of law activities, demonstrated that careful management is required to ensure that one set of activities does not receive priority over the other--in response to targets of opportunity, perceived priorities or other factors. When the contract budget is being funded from two sources, activities and expenditures must remain in line with the funding sources.
- Need for human capacity development expertise: Contractors are generally selected for their technical qualifications. However, given that most contracts call for results that imply institutional strengthening, the ability of applicants to engage in human capacity development should also be considered.

11. In carrying out the series of assessments which provided input into this report, USAID staff noted that they had learned the following lessons:

- While expatriate experts bring experience and new ideas to Armenia, it is important to balance their recommendations with input from local experts to ensure that the recommendations are relevant in the Armenian context. This step can be missed, undermining the value of the assessment, if the assessment team is not comprised of both expatriates and Armenians.
- Those carrying out assessments tend to spend much of their time with USAID's local counterparts, who are, in many ways, a privileged group. Their thoughts and views may not be representative of the broader population.
- Assessment surveys/questionnaires tend to ask yes/no questions, rather than allow people to explain their views. While this undoubtedly facilitates the assessors' work, it does not necessarily result in the best information and, to a certain extent, ignores the voice of the people.

C. Crosscutting themes

Several crosscutting themes wove their way through the majority of USAID/Armenia's assessments. To some extent, these echo the major constraints to development listed in Section IV.B, above.

1. Pervasiveness of corruption/weakness of rule of law

As discussed above, the pervasiveness of corruption and unequal application of the law are major impediments to Armenia's economic, political and social development. Virtually all of the USAID-funded assessments, as well as all other documentation reviewed by the author, cited these factors as significant constraints to progress.

2. Need for participatory policy development processes

Lack of participation of those most directly affected by policy, legal and regulatory reforms was also mentioned in several assessments as a critical factor inhibiting the quality of reforms across

all sectors. While there have been some positive movements in this areas (e.g. the NGO law), there are no well-established mechanisms in place for regular, systematic participation.

3. Need for human capacity development

As discussed earlier, although Armenians are highly educated, they lack skills in many of the areas needed for successful participation in a free market economy and a democratic political process. Several assessments highlighted the need for various levels of skill building, ranging from long-term training to short-term training to exposure visits. The Human Capacity Development (HCD) Assessment agreed that training was necessary, but pointed out the need for the training to take place within a broader framework that also addressed the system in which the new skills were to be applied (see "Need for institutional development," below). The Labor Market Evaluation identified key constraints to the efficient working of the labor market that prevented potential employees from knowing what skills were needed (and often in short supply) in the labor market.

4. Need for institutional development

Institutional development at all levels, within the government, within the private business sector and within NGOs, was consistently raised as a compelling need. Organizational weaknesses constrain the implementation of reform measures. Weak leadership, bureaucratic procedural impediments, poor delegation of responsibility and corresponding authority, lack of support for change within an organization, inadequate managerial skills, lack of motivation, unclear job descriptions, inadequate physical environments and tools, cultural obstacles and poor communication and weak feedback between staff and supervisors all act as barriers to institutional development. Management structures, operating procedures, budgeting systems, decision-making processes, etc. that function in a transparent and accountable manner are required.

VI. Strategic Considerations

Review of USAID/Armenia's assessments and evaluations, produced the following observations for consideration during the strategy development process.

A. Program gaps

1. Education

While Armenia has a well-educated population, the value of this resource is limited by the inability of the education system to provide an education relevant to a free-market democracy. Although some reforms have been undertaken, GOAM resources to invest in restructuring the entire education system are severely limited. The World Bank has made a commitment to assist the GOAM in this effort. USAID's "Quick Education Sector Assessment" recommended that, under its new strategy, USAID develop a modest, tightly focused education program to (a) help guide and support the mission's existing and future education work under its various strategic objectives and (2) develop and carry out a small number of additional, high priority education

projects in areas of interest to USAID. This recommendation is discussed more fully in Section VII.B. of this report.

2. Civil service reform

Both Britain's Department for International Development (DFID) and the World Bank are supporting civil service reform, an activity that is viewed as critical to the consolidation of democracy in Armenia. USAID's democracy and governance assessment recommended that USAID not become involved in civil service reform activities at this time. Rather, the assessment concluded that USAID should monitor progress under the DFID and World Bank programs.

3. Youth

With few employment prospects and a declining standard of living, young Armenians are increasingly becoming disillusioned with Armenia's economic and political reform process. Many leave the country; others are forced to embrace corrupt practices to survive. Young people are the key to Armenia's future. The previous strategy's emphasis on employment creation did not specifically target youth. Similarly, social safety net and health programs generally reached the elderly and disabled, but missed the youth. Not reaching the group that will be responsible for Armenia's future direction could be a serious missed opportunity. The author recommends that USAID/Armenia undertake a youth assessment to determine whether USAID could effectively become involved with youth and what types of programs would produce the best results.

4. Labor market

Widespread unemployment and underemployment have plagued Armenia since the late 1980s, causing many rural Armenians to migrate to urban centers, others to emigrate abroad, and virtually all Armenians to suffer a significantly lower standard of living. While the GOAM has undertaken initiatives to restructure public sector institutions, laws and resources to help counter worker dislocation, the actual level of job creation has been low. Yet, unless the population is able to engage in productive employment, prospects for reducing poverty are severely limited.

Given the fact that USAID's sub goal has been "employment opportunities created" and the way in which employment contributes to both USAID's economic and social sector objectives, lack of significant programs or initiatives directly concerned with employment, unemployment and the labor market appears to represent a serious strategic program gap for USAID/Armenia. The mission has been only nominally involved in direct job creation through NGO programs that include short-term work on community projects. More indirectly, USAID's efforts to foster the growth of a competitive private sector and to promote small, medium and micro-enterprises and agriculture/agribusinesses have helped provide employment. Activities with the Ministry of Social Services (MOSS) were related to unemployment.

USAID's labor market evaluation significantly improved the mission's understanding of factors constraining the efficiency of the Armenian labor market and the relationship between private

sector enterprises and those seeking employment. The evaluation also provided USAID with a menu of options for becoming involved in the area of labor that should be considered during the strategy development process.

5. Gender strategy

To date the mission has had no articulated gender strategy nor do most of the assessments specifically address gender differences. However, the assessments have raised certain points that indicate that there may be reasons to specifically target women and/or develop a female empowerment strategic objective. Of particular note, as discussed in section VI.B.5., below, many young Armenian men of productive age have left the country to find work abroad. This clearly has implications for the domestic labor market and the role that women play in that market. This relationship needs to be explored and gender factored into USAID/Armenia's decisions regarding labor market and employment creation programming. Similarly, issues involving domestic violence and human trafficking (discussed below) need to be explored.

Early in its strategy development process, USAID/Armenia acknowledged its need for increased awareness of gender issues and the development of a gender strategy. A gender assessment was completed in early 2003 and gender integration training sessions were conducted both for USAID/Armenia staff and for implementing partners in Yerevan. These steps will help ensure that gender is appropriately integrated into the new strategy.

6. Human trafficking and domestic violence

The GOAM and many Armenians deny the existence of both human trafficking and domestic violence. There is clear evidence, however, that both frequently occur. Given the high profile of these topics in the region, it initially appears that lack of programs to address these issues represents a gap in USAID/Armenia's strategy. In reality, however, while neither human trafficking nor domestic violence are USAID programmatic priorities (the U.S. Embassy is the lead U.S. government agency on anti-trafficking), USAID is funding programs in each area.

As in other parts of the former Soviet Union, human trafficking in Armenia has regional dimension. Young Armenian women most frequently trafficked out of Armenia into Turkey or Dubai. To help address this issue, the USAID-supported American Bar Association/Central and Eastern European Law Initiative (ABA/CEELI), jointly with the Organization for Security and Cooperation in Europe (OSCE), produced a video on trafficking that continues to be widely circulated. In addition, USAID funded a local NGO to carry out public awareness campaigns on trafficking in the free trade zone between Armenia and Georgia.

Domestic violence is reportedly common in Armenia, but is considered a "family" issue and is rarely reported. To help address this issue, in August 2001, USAID awarded Special Initiative Grants to eight Armenian NGOs to implement anti-domestic violence activities such as public awareness campaigns, research, psychological support, legal advice, roundtables and hotlines. As a follow on to these grants, USAID has awarded five direct anti-domestic violence grants of up to \$100,000 so that these programs can be continued and, in some regions, provide shelter for victims of domestic violence.

So that human trafficking and domestic violence do not appear to be gaps in USAID/Armenia's new strategy, they need to be explicitly addressed in the strategic plan. Following the completion of its gender assessment, USAID/Armenia initiated the development of a gender action plan. This action plan will help ensure that gender issues, including domestic violence and human trafficking, are appropriately mainstreamed not only into the new strategic plan, but also into all the mission's program planning, implementation and assessment activities.

7. Regional initiatives

Although difficult to implement, Armenia's small size and location imply that regional programs could significantly support economic development efforts. Regional initiatives also offer a means to overcome political constraints to growth and could help prevent potential conflict. USAID's Strategic Plan for FY1999-2003 recognized the need for regional programs and included an approach to regional programs as Annex 2. During the strategy period a regional water program was successfully implemented and some regional activities took place under USAID's democracy program. Additionally, the Eurasia Foundation carried out some regional initiatives under a USAID/Washington grant. These activities were limited, however, and do not appear to have been undertaken in any strategic way.

B. Gaps in knowledge

1. Potential role of the intelligentsia

An Armenian intelligentsia continues to reside in Armenia. Made up of writers, artists, musicians, dramatists, etc., this group could potentially play a role in combating corruption, promoting civil society, provoking debate and otherwise criticizing the status quo. None of the USAID assessments investigated this possibility, yet experience in other countries has demonstrated that the influence of this group can be significant.

2. Size, scope and impact of the shadow economy

It is believed that the informal sector of Armenia's economy may be almost equal in size to the formal economy. Clearly this has an impact on the tax base and the ability of the GOAM to carry out its responsibilities. The pension reform assessment indicated that the shadow economy is one of the key constraints to establishing adequate pensions.

In both 1996 and 1997, teams attempted to estimate the size of Armenia's informal sector. While these studies shed some light on its size and make-up, they provided little analysis of the primary reasons that individuals and businesses operate in the shadow economy or the impact of the shadow economy on Armenia's development.

3. Impact of out migration

It is estimated that almost one million Armenians have emigrated during the past decade (compared to the 3 million residing in Armenia, as enumerated by the 2001 census). Most of

those emigrating were young adults (mainly men) in their most productive years. Initially, those leaving had the competitive skills necessary to find good jobs elsewhere. More recently, the persistent economic depression has driven Armenians without skills to leave the country.

While it is clear that remittances from those abroad provide critical income to many Armenian families, there appears to have been little analysis of the consequences of out-migration on longer-term development. It is not clear whether out-migration has left Armenia bereft of critical skills needed to stimulate economic growth. As those of productive age leave the country, the proportion of elderly and young children obviously increases. However, as educated and skilled women remain in the country, an increasing number are becoming heads of households or remaining single--possibly adding to the decline in fertility rates and potentially contributing to the transmission of HIV. What does this mean for the health care system, pension reform, agriculture, private enterprise growth and other sectors of the economy?

While job creation and increased economic opportunity would clearly slow out-migration, it is possible that certain types of jobs and opportunities would be more successful in doing this than others. Additional research is needed to understand the costs of migration and the opportunities for stemming it.

4. Small and medium enterprise development

There is a wealth of literature on small and medium enterprises throughout the world that indicates that they are essential to economic expansion and job creation. The United Nations Development Programme report "Growth, Inequality and Poverty" concludes that in order to achieve pro-poor employment-intensive growth, GOAM policies should focus on supporting the expansion of small-scale private firms. According to this study, small-scale firms in Armenia would be more labor intensive than larger scale enterprises, would be able to exploit Armenia's comparative advantages in selected, skill-intensive productive sectors, and would be able to adapt more rapidly to changing economic conditions. USAID's Draft Labor Market Scope of Work, however, cautions against placing heavy and/or exclusive emphasis on SME development as the primary means of generating employment, indicating that SME jobs tend to offer fewer benefits and less job security. The Draft Labor Market SOW also indicates that SMEs do not have the economies of scale found in large firms and cannot provide continuous opportunities for skills enhancement and job advancement; that the employment effects of SMEs are generally temporary (due to turnover, buyouts, liquidation and layoffs); and that SMEs do not necessarily guarantee wage and employment gains for the worst off.

There is little current information available *specific to Armenia* to help the mission evaluate these conflicting positions and determine first, what role SMEs should play in efforts to stimulate economic development in Armenia and, second, how USAID can strategically support SME development in a manner that responds to current constraints and opportunities. Most of the available SME studies are outdated and do not necessarily reflect the state of the sector today. In recognition of this gap in knowledge, USAID/Armenia has planned a SME sector assessment for early 2003.

5. Sector growth potential

Targeting those sectors of the economy with the greatest growth potential could facilitate economic growth and provide employment. However, there has been no analysis of which sectors of Armenia's economy have the greatest potential for rapid growth or whether targeting those sectors would be an appropriate development strategy. Some believe that Armenia might have tourism potential or see possibilities in communications and information technologies, agricultural processing, banking, pharmaceuticals and gemstone processing. Further study is required to confirm these impressions. The Labor Market Study to be carried out in early 2003 should provide this type of information.

6. Market for unfinished structures

There are many unfinished structures throughout Armenia. Economically, it costs money to either complete these structures or demolish them, funds that the owners most likely do not have. The inaction would indicate that the market does not work and/or demand simply does not exist. Is there something hampering the market? Is there a market demand for the buildings and land? Might there be emotional reasons not to either finish or demolish these?

C. Macro/micro balance

Under its FY1999-2003 strategy, USAID/Armenia tried to adopt a balanced approach that would help address the short-term needs of the population while longer-term structural reforms were being institutionalized. Interventions to improve the enabling environment for economic growth were central to the strategy, but people-level impact was sought through programs in small business, civil society, rule of law and the social sector. It was recognized that the impact of macro-level interventions would not immediately be felt at the level of the individual, so there was a need to provide immediate assistance to the population.

None of USAID/Armenia's assessments and evaluations specifically addressed the question of whether the balance of resources allocated to macro vs. micro-level interventions was appropriate. Rather, the focus was on building on what had been accomplished--at both the micro and macro levels. At the same time, some general conclusions can be drawn to help inform the strategy development process.

- Most assessments proposed a combination of micro and macro-level interventions, indicating that a combination of the two is still required.
- USAID/Armenia's success in achieving major improvements in the legal and regulatory framework across all sectors means that under the new strategy the emphasis should be on implementing and enforcing the new legal and regulatory framework, which will be more visible at the micro-level.
- There have been numerous recommendations for new micro-level interventions, including expanded programs in HIV/AIDS, education, labor, agriculture, etc.

It therefore appears that, if USAID/Armenia acts on the recommendations provided in the assessments and evaluations, there will be a slight shift in its new strategy toward micro-level interventions.

D. Areas of USAID comparative advantage/disadvantage

USAID's comparative advantages

1. The high level of USAID funding (U.S. government assistance to Armenia is among the very highest per capita levels of assistance worldwide) means that USAID has the ability to be heard at the highest levels of government.
2. Given that there is a hard, annual U.S. Congressional earmark for Armenia, both USAID and the GOAM can be confident that USAID will continue to work in Armenia for a long period of time, enabling them to adopt a long-term perspective.
3. USAID has comparatively more staff in-country (in relation to other donors), its strategy is Mission-driven and projects are managed in-country.
4. USAID is good at providing technical assistance and training. It can be flexible and is able to access good quality technical assistance. When required, it has the ability to quickly mobilize technical assistance to respond to an immediate need.
5. USAID has extensive international experience in policy and legal framework development that it can draw on.
6. USAID's success in supporting the strengthening of regulating organizations, particularly for energy, telecommunications and other utilities, throughout the countries of the former-Soviet Union gives it a unique advantage in this field.
7. USAID has worldwide experience in successfully managing credit programs, particularly for small and medium enterprises and for agribusinesses.
8. USAID also has a sound reputation for working in SME development.
9. USAID has extensive worldwide experience on health reform. It has piloted projects on nearly every aspect of health reform in numerous locations. It knows the region in which Armenia is located and the issues.
10. Throughout the world, USAID has successfully helped foster the growth of NGOs. Many NGOs that were either started by or received USAID assistance have become key players in their host country's development.

USAID's weaknesses

1. USAID is not able to support major capital investments for facilities and equipment even when they are critical constraints to development.

2. USAID does not always adequately evaluate its pilot programs and draw from them lessons learned and best practices.
3. Mission staffing is often thin and individual officers must divide their time among competing priorities. As a result, USAID staff can be overly dependent on contract managers and external consultants.
4. Because of its dependence on contractors, USAID's institutional memory is weak.

E. Emerging opportunities

1. Council of Europe (COE) membership

To maintain its membership in the COE, the GOAM must adopt COE-proposed changes in Armenian institutional arrangements, including constitutional amendments (involving judicial autonomy, human rights ombudsman, and the internal structure of the GOAM), new laws (Civil Service Reform) and changes in existing laws (local self-government, electoral code). Support for such changes would have a crosscutting impact that would benefit all USAID-supported programs. Reportedly, the GOAM places great value on the COE accession process, indicating that commitment to the required reforms should be forthcoming.

2. World Trade Organization Membership

Since Armenia's formal accession to the World Trade Organization on February 5, 2003, the Ministry of Trade and Economic Development has been compiling a list of all the obligations and commitments that Armenia made by joining the WTO. It is expected that this list will be presented by the Ministry to the donor community in late May/early June 2003 and that the donor community will provide follow-up assistance to ensure that Armenia has the capacity to be compliant with the terms and agreements it signed. Not only does the provision of technical assistance for WTO compliance represent a target of opportunity for USAID, but furthermore USAID can strategically elect to support those obligations and commitments which best complement and reinforce other USAID-supported activities, thus developing synergies with other USAID programs.

3. Economic Courts

Unequal application of the law has been cited as a critical constraint to economic and political development. Supporting the new Economic Courts offer a target of opportunity that could have an impact on several USAID programs. Because the Economic Courts have no "history", it may be an easier task to get them off to a good start than to reform already-established systems. Ensuring that the Economic Courts operate transparently and professionally would (a) improve the investment climate, (b) support judicial reform, (c) help combat corruption and (d) serve as an example to both the general populace and the GOAM.

4. Court monitoring

Under its FY1999-2003 strategy, USAID/Armenia assisted in the development of a series of laws and regulations in many sectors. As a result, Armenia now boasts a legal and regulatory framework that is consistent with and supports a free market economy and democratic political system. The benefits of this legal framework can only be accrued, however, if the laws are implemented and enforced. Engaging in court monitoring is one important way in which USAID could support policy implementation. The benefits of this activity would span USAID's portfolio.

5. Second generation treasury reforms

The World Bank's Public Expenditure Report highlights the need to design and implement second-generation treasury reforms that would consolidate the gains made to date in strengthening public expenditure management. Key reforms include designing and implementing an integrated financial management information system (FMIS) database to enable the central treasury to have a consolidated view of total treasury operations and strengthening both commitment controls and internal audit. Support for these types of activities would be a logical follow on to the budget reform interventions that USAID has supported to date.

6. Inter-government transfers

Successful decentralization requires that a transparent system for inter-government transfers be developed and implemented. Assistance in the development of such a system would help strengthen central level GOAM budgeting while providing local governments with a reliable source of income.

7. Multi-sector regulator

The GOA has decided to incorporate the Armenian Energy Regulatory Commission (AERC) in late 2003 or 2004 into a new multi-sector regulator covering not only energy, but also telephone and water (and potentially other services). USAID/Armenia has been providing assistance to the AERC under its current strategy and has already established a solid working relationship with this entity. Furthermore, USAID has an established reputation for successfully supporting regulatory organizations throughout the region. Support for the new multi-sector regulator would allow USAID to continue to work within the energy sector, while expanding lessons learned and experience to other vital sectors of the economy.

8. Agricultural credit

Credit is recognized as key to stimulating growth in agriculture and agribusiness. The agricultural sector assessment indicated that the USDA agricultural credit program is distorting the market and is not well implemented. The micro finance assessment shared this view. USAID has a comparative advantage in the provision of credit and is already involved in a small way in providing credit to agribusinesses. Expansion of this effort including, if possible, assumption of responsibility for the USDA program, has the potential to significantly impact the agricultural sector and, hence, immediately improve the lives of Armenia's rural population.

9. HIV/AIDS

HIV prevalence is currently very low in Armenia, although HIV is already established in defined sub-populations. Experience in other Eastern European countries indicates that the rate can rapidly increase if no preventative strategy is implemented. Even limited intervention now offers a rare opportunity to *prevent* a problem, rather than wait for a problem to develop and then try to solve it.

10. Labor

Increasing incomes requires that people have employment. Working with the labor market offers an opportunity to directly impact family income as well as to spur economic growth from “below.”

The Labor Market Evaluation presented several options for becoming strategically involved in labor by focusing on:

- Creating a more efficient labor market
- Creating more and better jobs
- Creating a more demand driven workforce development system

In addition, there are several opportunities for joining employment and unemployment programs with social sector activities, including:

- Monitoring and evaluation of employment programs and unemployment benefits, improved targeting, and interaction with other elements of social insurance and social assistance.
- Linking employment and unemployment databases with social insurance/assistance databases
- Integrating the system of unemployment benefits with pensions and social assistance

Employment/unemployment programs support the strategy of providing immediate assistance to vulnerable families (i.e. short-term unemployment benefits) while simultaneously building longer-term, sustainable development through retraining, job information and employment creation activities.

11. Social services and social workers

A well-trained, professional staff is an essential component of any successful business or service. Social assistance is no different. Social workers potentially can play an important role in targeting assistance and can bring together all resources that the government has to assist the needy (social assistance, social services, employment assistance and health care).

12. Anti-corruption

Corruption has been identified as one of the key constraints to reform in Armenia. The GOAM is currently reviewing the final anti-corruption strategy report produced by a group of international and Armenian experts. USAID could capitalize on the momentum emanating from the production and discussion of this report to become involved in some aspect of anti-corruption. It might be possible to support one part of the GOAM strategy, to select one aspect

of corruption or to work intensively with one branch of government (such as the judiciary) or one sector (such as health). The Rule of Law/Anti-Corruption Assessment offered several concrete recommendations that USAID should consider in its strategy development process (for details, see Annex A, Assessment Summaries).

13. NGO strengthening

While USAID/Armenia is already working with NGOs to strengthen their capacity and to encourage them to build social partnerships with the GOAM, a redoubling of this effort was recommended in the STP evaluation. Among other things, NGOs offer a cost effective means of reaching the vulnerable, strengthening civil society, building ownership of the development process and participating in the policy dialog process.

14. Judiciary and lawyers

USAID's Rule of Law/Anti-Corruption Assessment identified institutional support to both the judiciary and lawyers as targets of opportunity that would build on positive accomplishments over the last few years and help tackle remaining obstacles to broader systemic development.

Worldwide experience has demonstrated that microenterprise development promotes broad-based growth and improves the lives of the poor, especially women, both by providing significant income-and employment-generating opportunities and by encouraging indigenous investment. Given that the results of microenterprise development correspond to USAID emphases in Armenia, USAID/Armenia may want to consider the inclusion of a more prominent microenterprise development program in its new strategy.

15. Microenterprise development

Worldwide experience has demonstrated that microenterprise development promotes broad-based growth and improves the lives of the poor, especially women, both by providing significant income-and employment-generating opportunities and by encouraging indigenous investment. In early 2002, USAID/Armenia conducted a "Market Assessment for Microenterprise Services in the Republic of Armenia," which led to the development of a microenterprise development concept paper. Based on the concept paper, USAID/Armenia then approved a new five million dollar microenterprise development activity, which is currently under procurement. This activity will play an important role in the new strategy, helping to create employment, raise incomes and directly reach those most in need.

16. SME development

SMEs are recognized as an important venue for providing income and employment to the poor. To date USAID has focused mainly on the development of SMEs in the agricultural sector. Expansion of this focus offers an opportunity to have a greater people-level impact. As discussed in Section VI.B.6 of this report, however, a better understanding of the SME sector is required before an appropriate SME strategy can be developed.

17. Development of a unified national vision

The development of a unified national vision for the future can sometimes be useful in helping a country to recognize its strengths and weaknesses and work more collaboratively toward a common goal. Of key importance is that the general public understands the long-term implications of issues such as corruption, lack of transparency and a dominant executive. USAID can play an important role in increasing public awareness and building demand for reforms that will lead to a better future for all Armenians.

F. Synergies

While linkages between almost any two development programs can be demonstrated, it is also sometimes possible to identify a single activity, the achievement of which will open the door for progress in several other sectors or a group of activities that will work together to achieve more than the sum of their parts. The Earthquake Zone recovery program, as an example, was able to stimulate local economic growth in conjunction with its housing purchase certificate program and related activities. Other potential areas for USAID intervention that offer opportunities for achieving synergies include:

1. Integrated tax system/pension reform

Simultaneous development of an integrated tax collection system that includes collecting and enforcing the social insurance tax contribution (pensions, health and other social sector contributions) and promotion of pension reform should mutually reinforce each other. Not only would tax reform goals be met, but pension reform would also be stimulated. If integration of the tax collection system is currently not feasible, the stage could be set by ensuring that the various databases have the capability to be integrated later. (Note: Reportedly the GOAM knows the benefits of integration, but prefers a "go slow" approach.) In addition, the development of the domestic debt market is a critical factor in the development of a vibrant private pension system.

2. Participatory policy development/civic education

Lack of a mechanism for participatory policy development was cited as a factor constraining reform of many sectors. Development of both national and local level mechanisms for participation would not only improve the policy-making process and the quality of policies produced, but would also reinforce democratic principles and help ameliorate the public's feelings of apathy. Programs in civic education, NGO strengthening and the media could build demand for participation, ensuring that both the demand side and supply side of the equation were met.

3. Applying democratic principles to all programs

The application and integration of democratic principles such as participatory governance, transparency, accountability, coalition building and advocacy could strengthen virtually all USAID-supported programs. Clear opportunities exist for applying these principles to local

governance programs, the development of self-regulating organizations, the development of farmer cooperatives or business associations, programs to address health issues, etc.

4. Local government/sector reform programs

Local government programs offer excellent opportunities for achieving synergies by bringing sector-specific programs together in a particular geographic zone. Not only can local government programs promote democratic principles and stimulate civic participation, they can also play a key role in creating a local environment conducive to SME development, help stimulate NGO development, encourage tax compliance and provide services to the vulnerable. Implementation of these types of programs in a region where local government programs are also being implemented paves the way for local development.

Similarly, training regional (marz) and local government officials in social policy implementation and management would complement local government programs, help clarify the roles of central and local government in the provision of social and health services and support the GOAM goal of decentralization.

5. Anti-corruption/sector reform

Focusing USAID's anti-corruption efforts on a single sector in which USAID is also promoting reforms has the potential to achieve synergies. For example, the Rule of Law/Anti-Corruption Assessment points out that "The health sector is but one example of a sector in which systemic corruption cannot be adequately understood or addressed without addressing how the system is financed and what type and number of facilities and personnel the system should and should not have, given the population and resources available." Clearly, USAID's activities in optimization and health financing have the potential to team up with anti-corruption efforts to achieve broader sector reform than would be possible through only health sector reform activities.

6. Media/anti-corruption/civic education

Strengthening the independence and professionalism of the media has the potential to complement and expand the impact of activities in areas such as anti-corruption and civic education. Investigative journalism into corruption, for example, can increase public awareness of "irregular" activities and help to serve as a rallying point for civic activism. Similarly, the media provides an excellent venue for helping people understand their rights and would provide a critical tool in any efforts to build a national vision.

7. Collateral law/micro finance

The commercial law assessment identified the lack of a collateral law as a major gap. This lack was also noted as a key impediment to the development and expansion of micro finance institutions and small and medium enterprises (including agriculture). Supporting the development of a collateral law would therefore support and reinforce a broad range of USAID-supported interventions. Linked to this, the financial sector review noted a need to accelerate the

judicial process related to repossessing collateral. This action would contribute toward judicial reform and have a positive impact on micro finance and agricultural development.

8. Intergovernmental transfers/local government

The development of a system of intergovernmental transfers not only strengthens the GOAM budgeting and accounting systems, but is also critical to the strengthening and independence of local governments. The process of decentralization cannot succeed without a formalized, transparent system for budgeting and transferring funds from the central government to the marz governments.

9. Labor market/sector growth

Potentially, working with the labor market could achieve important synergies through activities such as providing training to workers in an area identified as having high growth potential (creating a demand driven workforce). For example, the labor market study recommended that workforce development should accompany the development of industry clusters. Clearly growth cannot take place without the availability of a labor force with the skills and qualifications needed to support increased production and/or service provision.

10. Labor market/economic policy

Including labor in USAID's efforts to support the development of a policy environment that encourages economic growth could help to reduce inefficiencies in the labor market, thus helping to ensure that both employment increases and economic growth is stimulated.

11. World Trade Organization/economic growth

As mentioned previously, there may be opportunities for supporting Armenia's WTO obligations and commitments in a manner that builds synergies with other USAID programs. The compendium of obligations and commitments currently being prepared by the Ministry of Trade and Economic Development will need to be reviewed through a "synergies" lense as USAID decides how it will support Armenia in complying with its WTO obligations.

12. Financial sector reforms/small business growth

Financial sector strengthening and working with non-bank financial institutions to provide microfinance has the potential to stimulate growth in the agricultural sector and expand opportunities for SME development--if small farmers and entrepreneurs are able to take advantage of the availability of credit. By supporting the provision of business development services, land titling and the ability of farmers to use land as collateral, the establishment of a land market and other complementary activities, USAID can help ensure that the synergies between the sectors are maximized.

13. Insurance industry/financial markets/pension reform

Both an active insurance industry and well-developed financial markets are preconditions for the development of nonstate pensions. By ensuring that its support to financial market development includes the types of products and institutions required for increased private provision of social insurance, USAID will improve the environment for pension reform. At the same time, each step in the pension reform process will stimulate the development of the financial markets.

14. Education/technical programs/employment/youth

Targeted high priority education projects in areas of interest to USAID could simultaneously support reform of the education sector and help ensure the sustainability of USAID's investments by providing a continuous supply of people trained in specific technical areas. In addition, support for educational reform would help initiate a process of attitude and behavior change among Armenia's youth that would facilitate the transition process and otherwise contribute to building the future.

15. Performance-based human capacity development approach

Emphasizing human capacity development, rather than training, will help ensure that technical assistance and training activities are better integrated, leading to increased effectiveness of both. A holistic approach to human capacity development, which addresses the systems in which skills are applied as well as the skills themselves, will result in a synergistic relationship that enables organizations to use their trained personnel and assets to achieve improved performance.

16. Youth focus

Either incorporating youth into the strategy as a crosscutting theme or developing an activity that specifically targets youth potentially could have synergies with virtually all other USAID-supported activities. By helping ensure that youth have education, employment opportunities, skills to lead healthy lives, etc., USAID would be building a stronger base for economic development, political participation and social activism.

17. Development activities/direct assistance

There is the potential to improve the linkages between direct assistance programs and development activities so that the impact of both is enhanced. In particular, public works programs could be linked to activities that incorporate construction or renovation, including energy efficiency programs. Similarly, direct health assistance programs could be integrated into USAID-supported health activities. It appears that direct assistance program are already fostering participatory decision-making. Linkages with local government programs may be possible.

VII. Strategic Issues

The USAID-funded assessments produced a multitude of excellent information, analysis and recommendations. With these in hand, USAID/Armenia initiated the process of sifting through this information to use it to productively formulate a forward-looking, coherent and dynamic

strategy to guide mission programs over the next five years. To help provide a context in which could view the findings and recommendations, on February 12, 2003, the mission held a strategy workshop to develop a draft vision statement. The strategy workshop began with candid feedback on the Agency and E&E Bureau vision statements. On the basis of that exercise, each participant was asked to propose a vision statement for USAID/Armenia. The discussion took a new direction as the group struggled to find common and divergent themes across a sea of “post-it notes.” Some participants questioned whether a statement was necessary at all, and expressed misgivings that vision statements were hollow. Many concurred that such overarching formulations contained ambitious, unrealistic and even disingenuous rhetoric.

The discussion led participants to articulate a series of things they decidedly did **not** want a mission vision statement to contain, which morphed into a set of rules:

- Not naïve or condescending
- No “AIDSPEAK”
- Not too broad
- Not too vague
- Not unrealistic

After dividing into four groups, each group was tasked with redrafting a statement that applied the new rules. One group reported nearing consensus when time ran out but had not completed a draft. Statements from the remaining three groups were:

- (1) ”Assisting the people of Armenia to achieve sustainable development.”
- (2) “Collaborate with Armenian partners to achieve a healthier, more democratic, and more equitably prosperous Armenia.”
- (3) “Creating a life for the citizens of Armenia that is just, rewarding, offers choices and addresses the needs and causes of the poor and vulnerable.”

Participants applied an additional litmus test when asked the extent to which each group statement reflected consideration of the following “strategic themes:”

- U.S. national interests
- Institution building
- Human capacity development
- Gender
- Regional focus, concentrating resources domestically and “confidence building” externally
- Graduation/exit prospects
- Diaspora
- AA priority themes: values/character education, anti-corruption, conflict, Islam
- The GOAM's "Poverty Reduction Strategy Paper" (a World Bank requirement)
- Youth

After using these guidelines to compare statements, participants selected #2, "Collaborate with Armenian partners to achieve a healthier, more democratic, and more equitably prosperous Armenia," as a working draft for its 2004-2008 strategy.

Finally, participants compared the new formulation to their 1998-2003 vision statement, *“USAID/Armenia is committed to working in partnership with Armenians for a prosperous and stable country that offers equal opportunity to all its citizens. This is achieved by a strong democracy and market economy, governed by the rule of law, which promotes the general welfare of the people.”* There was general agreement that the new draft statement showed forward movement in mission thinking, while remaining faithful to long-established principles and values of USAID/Armenia.

Using this draft vision statement as a lens, the mission must now begin to make decisions and address the recommendations of the assessments. Key issues that must be addressed during USAID/Armenia’s strategy development process are identified below.

A. Mission-level issues

1. Role of the Global Development Alliance (GDA)

GDA is USAID's commitment to change the way development assistance is implemented. A development alliance is an agreement between two or more parties to jointly define a development problem and jointly contribute to its solution (with at least a one-to-one funding match from private sector sources, including cash and in-kind contributions). USAID's alliances with other partners are ways and means of achieving the strategic objectives and results envisioned in USAID's country strategic plan. Therefore, all proposed alliances must support the mission's new strategy.

USAID/Armenia's current portfolio of activities contains four mission-funded and one USAID/Washington-funded activity that are considered Global Development Alliances:

- **The Earthquake Zone Recovery Program:** Under this activity, USAID works with the GOAM at the local, regional and national levels, with other donor organizations and with the private sector to assist the GOAM in meeting its obligation to compensate families who lost housing in the 1988 earthquake and still live in temporary shelters. A Memorandum of Understanding with all the GOAM counterparts and a Letter of Understanding with the United Nations High Committee on Refugees (UNHCR) help structure the partnership. In fiscal year 2002, USAID/Armenia spent approximately \$10 million on this activity. Total other private and public sector donor funding was a multiple of this figure. Other partners include the World Food Program, the United Nations Development Programme, the Lincy Foundation and the Huntsman Foundation. In addition, the program has collaborated with numerous local and provincial governments to clear important "public assets," such as schools and museums, and has cooperated with other donor organizations to provide advice and facilitate their assistance in the Earthquake Zone.
- **Armenia Leasing:** Working together with the International Finance Corporation and several private sector entities, USAID/Armenia negotiated an agreement to assist in the formation of a commercial leasing company to provide mid-term leasing financing for local agribusinesses and the Armenia SME community. USAID will fund approximately \$1.2 million in technical assistance for this new venture in FY03 and FY04, while the partners will fund a \$4.0 million line of credit.

- International Executive Service Corps: IESC provides in-kind technical assistance to improve the capacity of Armenian small and medium sized businesses in information technology, jewelry, gem-cutting and stone-processing, textiles and tourism, while also leveraging Diaspora and other private sector funds.
- American International Health Alliance (AIHA) is implementing four active health care partnerships, utilizing U.S. health professionals who volunteer their time to assist intermittently to strengthen Armenian health care facilities.
- Farmer-to-Farmer (Washington-funded): In FY 02, through partnerships with ACIDI/VOCA, Winrock International and thirteen local agricultural businesses, USAID was able to leverage its funds by over 100% to simultaneously enhance the efficiency of local business and also develop a network of market support organizations, including service businesses and producer groups.

In addition to the above, the mission also supports several other GDA-like activities, including:

- Childhood Vaccine Endowment: The Ani & Naron Memorial Foundation, a partnership between USAID and the Armenian Diaspora, will ensure a sustainable supply of vaccines for the Armenia National Immunization Program.
- Real Estate Partnership links private sector real estate associations with Armenian real estate associations.
- Energy Industry Partnership fosters mentoring by private U.S. energy companies.
- Partnership for Accounting Reform brings together U.S. accounting associations and Armenian accounting associations

These partnerships have the potential to grow into GDA activities, but because the current level of matching funds (10%-33%) is too low, they do not yet qualify as GDA activities. It is anticipated, however, that these partnerships will continue well beyond USAID funding and that they will positively contribute to Armenia's development.

Under its new strategy, USAID will be expected to identify additional opportunities for partnerships and/or articulate a strategy for developing partnerships. The Armenian Diaspora in the United States perhaps offers the best opportunity for new partnerships. Areas that might be appropriate for alliances include direct assistance (partnerships with the Diaspora and U.S. NGOs), health (partnerships between local hospitals/clinics and either NGOs or foreign health care facilities), local government (sister city programs), anti-corruption (partnerships with NGOs or business and professional associations) and information and communication technologies (partnerships between local state universities and foreign universities and/or information technology vendors). This mission is already actively engaging Diaspora and private sector firms in discussions on the GDA and the potential for working together.

3. Local ownership

How can USAID ensure that there is a greater sense of ownership among Armenians of the development process and the programs that USAID is funding? To what extent can the strategy development process be used to this end? In carrying out the many assessments that informed this report, Armenians were widely consulted. How can USAID/Armenia build on this momentum to ensure that strategy-related decisions are participatory?

4. Balance between working with the GOAM vs. private and NGO sectors

The mission needs to make a decision as to how it wants to allocate its programs/funds between the GOAM and the non-government sector. This decision will be influenced by political factors, commitments that have already been made, past performance, etc., but must also take the following into consideration:

- The mission goal will help determine the balance
- The absorptive capacity of potential partner institutions must be taken into account
- Targets of opportunity should be considered
- Political will should be examined

5. Role of regional programs/opportunities for regional cooperation

Seriously addressing conflict prevention will require regional initiatives. Is this something USAID should become involved in? To what extent? Several areas for potential regional programs were identified, including energy, water, transportation, the environment and disaster preparedness. In addition, programs such as sister cities, sports exchanges and youth initiatives could encourage goodwill.

Regional politics and rivalries combined with USAID's rigid bureaucracy and the country-specific focus of USG leadership in these countries inhibits joint programming. How might these constraints be addressed?

6. Manageable interest

USAID/Armenia is currently implementing some 48 separate activities. While several will draw to a close in the next few months, the assessments, evaluations and discussions with mission staff identified numerous new areas in which the mission may want to become involved under the new strategy. A short list might include:

- A stand-alone anti-corruption activity
- Additional environmental activities
- Greater emphasis on health-related issues
- Greater involvement in SME development
- Increased effort to strengthen NGOs
- Involvement in the labor market
- Some type of youth focus

There is no doubt that most of these are excellent recommendations, identifying areas in which USAID could have a positive impact on development in Armenia. At the same time, the mission expressed concern to the author with the number of activities in its portfolio and the management burden that places on the mission. Clearly USAID cannot "do it all." Hard choices must be made and priorities established during the strategy development process. Guidelines for making these choices include:

- Direct linkage to the mission goal
- GOAM priorities
- Following ongoing activities to conclusion (including "next steps" and implementation and enforcement of reforms that have previously received USAID support)

- Working in areas in which there is political will for reform and committed leaders
- Taking advantage of synergies
- Capitalizing on opportunities for partnerships

7. Synergies

While several areas of potential synergies exist, experience (worldwide) has demonstrated that synergies are difficult to achieve. Office and strategic objective team structures, time constraints, etc. often get in the way. What can the mission do to facilitate synergies? Are there structures or networks that could be established and implemented to assist?

8. Macro/micro balance

As in the previous strategy, the mission will need to determine what constitutes an appropriate balance between macro-level and micro-level interventions. Some sector interventions will be almost exclusively macro-level or micro-level, while others will have elements that address both levels. For example, energy sector interventions (privatization, commercialization, regulatory and pricing issues, ANPP safety and energy efficiency) are primarily macro-level, but it has been recommended that increased emphasis be placed on the micro-level issue of affordability of energy by the poor and elderly. Some type of analysis of what citizens feel is most important to improving their quality of life might help to inform the micro/macro decision.

B. Sector-level issues

1. Approach to capital markets

Efforts in the area of capital markets have prepared the way for capital market activity. However, there are currently few eligible investment grade companies to take advantage of this infrastructure in Armenia. Banks operating as intermediaries between the few existing buyers and sellers could be a more cost-effective approach to capital markets for Armenia. Should USAID investigate this approach for supporting capital markets?

2. Role of agriculture in USAID's portfolio

USAID's Agriculture Sector Assessment concluded that "Without continued growth in the [agriculture] sector, it will be difficult for Armenia to achieve equitable or even sustained growth given the substantial numbers of people living in rural areas." A recent World Bank report reinforced this message, predicting that agriculture, which employs 80% of Armenia's poor, is expected to contribute 19% of anticipated growth in the near future.

In spite of these findings, the Agricultural Sector Assessment recommended that USAID not initiate any new programs in the agriculture sector at this time, stating that the marginal contribution of additional assistance does not warrant the investment. USAID/Armenia's technical staff is in general agreement with the Assessment's recommendation, although they also note that mission engagement in the sector can be justified to pursue the objectives of reducing poverty and promoting equitable growth. It does not seem likely that carefully

designed agriculture sector activities focused on poverty reduction and enhancing equity would lead USAID to increase its engagement in agriculture. Specifically, the Missions technical office believes that USAID/Armenia should focus its involvement on "what USAID does best," including working with agricultural SMEs, providing agricultural credit, and improving management and marketing skills. In addition, USAID could consider some limited additional activities linked to its on-going Farmer to Farmer program, such as assistance to help establish farm stores or to support farmers' associations, which can be important in improving the agricultural market conditions that help lead to increased rural incomes and employment.

3. Labor market

Lack of USAID involvement in the labor market was identified as a serious gap in the previous strategy, particularly given that a sub-goal was increased employment. The labor market evaluation and strategy assessment presented several options for future USAID involvement in improving the efficiency of the labor market. How can USAID best incorporate these recommendations into the new strategy? Should "increased employment" (or something similar) become a strategic objective or intermediate result under the new strategy? Should a separate labor program be designed? Or, should USAID focus on utilizing the recommendations of the labor market evaluation to complement and build synergies with other USAID activities?

4. The environment

USAID/Armenia's strategic plan for FY1999-2003 did not include an environmental strategic objective. Instead, the strategy argued that the environment was closely interrelated with almost all aspects of the strategy and that environmental solutions would need to be integrated into the rest of the program. However, specific environmental activities were incorporated into the strategy when a Special Objective on sustainable, integrated water resources management was introduced in 2001 and when the energy strategic objective was adjusted to reflect the increased importance of energy efficiency and developing renewable energy resources to Armenia's goal of enhanced energy security. What approach to environment should the mission adopt under the new strategy?

To help inform this decision, USAID recently conducted a pre-assessment to identify potential interventions in the environment sector. The areas of sustainable resource use and management, environmental health, industrial pollution management and environmental management were proposed as meriting further consideration. A subsequent in-house assessment of opportunities for USAID assistance in the environment presented four options for consideration:

Option 1: No environment in portfolio: Phase out of the water Special Objective, but maintain a minimal environmental component through the energy portfolio's energy efficiency and renewable energy activities, primarily linked to the objectives of economic growth and energy security.

Option 2: Expanded status quo: Maintain the current energy and water Strategic Objectives, with the current types of focus on a mix of economic and environmental issues.

Option 3: *Environmental Strategic Objective (1):* Continue to focus on energy and water but give these activities a sharper definition by combining them into a single Strategic Objective.

Option 4: *Environmental Strategic Objective (2):* Move beyond the current focus on energy and water to develop an environmental strategic objective which includes an integrated focus on sustainable resource management for economic growth, potentially including sustainable resource-use management, environmental policy and management, industrial pollution control and waste minimization, and environmental health.

In the author's discussions with USAID staff, "water" was mentioned as a potentially appropriate focus for USAID's new strategy, including drawing to conclusion activities already started through support for enforcing and implementing the Water Code and continuing to develop sustainable water management at both the national and basin levels. Additionally, water metering, rehabilitation of water purification systems and unbundling of the water sector were put forward as possible activities. (Water would fall under the "environmental health" area identified in the pre-assessment.) Water is clearly a priority for the GOAM, as three of the five priorities identified in the National Environmental Action Plan are water-related. Furthermore, USAID is already involved in a regional water project, which has been successful, and thus already has a working relationship with some of the potential partners.

5. Energy sector

The Energy Program Assessment recommends that energy sector reforms remain as a critical strategic objective in the new strategy. At the same time, the report indicates that substantial accomplishments have been made in the energy sector, particularly with regards to privatization and restructuring. It appears that this set of energy sector activities will decline in importance during the 2004-2008 strategy period, while those related to environmental efficiency and diversification may become more prominent. If this scenario is accurate, should "energy" continue as a single strategic objective, or should "energy" and "environment" be combined into one SO?

6. Public utilities

Given USAID's success in the energy sector, particularly with supporting the establishment of a regulator and an energy law, should the mission capitalize on this experience and initiate similar activities with other types of utilities (telecommunications, municipal water, aviation)? The creation of a multi-sectoral regulator would facilitate this expanded involvement in utilities. Should there be a separate strategic objective related to "public utilities"?

7. Continued integration of health and social sectors

USAID/Armenia has been both criticized and commended for integrating its health and social sector programs into one strategic objective. The STP evaluation team recommended that the integrated approach continue under the new strategy. The mission also seems to favor continued integration. In confirming this decision, the following factors should be considered:

Rationale for continued integration:

Because many of the problems and issues affecting both sectors are interrelated, addressing them jointly makes sense programmatically. By focusing on these common issues, the program is able to address issues in two sectors simultaneously.

Both the MOH and MOSS serve many of the same clients, including pensioners, the disabled, orphans and other vulnerable groups. Integration provides an opportunity to adopt a comprehensive approach to meeting the needs of these clients.

Financially, integration results in considerable cost savings through more effective use of limited technical assistance and through shared activities such as joint training sessions.

Integration increases the applications for the skilled, highly specialized and costly human resources that USAID is training and developing, such as actuaries, lawyers and social workers.

Integration facilitates shared database collection and analysis.

Integration helps promote linkages and better working relationships between the MOH and MOSS, which should be of long-term benefit.

Both the Minister of Social Security and the Minister of Health have expressed support for integration.

Armenia is a small country, offering opportunities for a holistic approach to problems solving. The integrated STP structure responds to this opportunity.

Lessons learned in one sector are more likely to be applied in the other sector when the program is integrated.

Integration should result in achieving synergies.

To date, integration has demonstrated notable successes in the development of laws, in the design of information technology systems, in improving targeting, in training, in public information and in carrying out household surveys.

Rationale for separating social sector and health objectives

The fact that there is no specific health strategy means that issues specific to health are not as easily fully addressed. Planning and thinking about health issues is constrained. For example, issues related to health status are not being adequately examined.

Reform of the health sector appears to be more complex than reform in the social sector. It may take longer and require different inputs.

Mediocre performance of health sector activities has been partially attributed to integration (management problems and the inability of the prime contractor to recruit appropriate staff were also contributing factors).

The main benefits of integration have possibly already been achieved (particularly those related to laws, targeting and training). It may be time to move on, with strategies specific to each sector.

Integration is principally taking place under the PADCO contract. While Mission Armenia also pursues an integrated health and social services program through a subcontract with UMCOR, in general NGO programs in the health and social sectors have not adopted an integrated approach.

8. Need for a health strategy

Whether USAID/Armenia decides to continue its integrated approach to health and social sector programs or not, it may find it useful to develop a health strategy that helps to demonstrate the linkages between health-specific programs and structural reform efforts. The STP evaluation commented that some of the currently funded health programs (specifically AIHA, PRIME II and MACRO) appear to have been undertaken "more in response to Congressional earmarks and exhortations and to other factors than to a conscious effort to program resources to achieve STP objectives." The USAID STP team does not agree with this assessment, citing the important contributions that these programs are making. For example, PRIME II is directly contributing to STP objectives by taking responsibility for development of the maternal and newborn health components of the family medicine curricula and training (a key component of the PADCO-implemented program). Furthermore, the PRIME II program is upgrading the skills of nurses and midwives staffing rural health posts--making primary level prenatal and newborn care more accessible and improving the quality of care that is available. These are areas that the health sector assessment team identified as priorities. Furthermore, to cross-fertilize, PRIME is targeting health posts supervised by polyclinics whose doctors are involved in family medicine training. Similarly, the MACRO-implemented Demographic and Health Survey provides critical data for health reform decisions. The existence of a health strategy would help to clarify the roles of these activities and support the STP team's recommendation that they be continued.

9. Sustainability of social sector reforms

It is unclear whether the GOAM has the financial resources to maintain and upkeep the structural and operational changes to social services and social insurance that USAID and other donors are providing. Commitment of the GOAM to maintain the reforms is also questioned. Does this mean that the sustainability of social sector reforms is in jeopardy (particularly the new information systems). What are the implications of lack of funds and/or lack of commitment for future USAID programming? What can USAID do to ensure that there is commitment from all sources (World Bank, USAID, Ministry of Finance and Economy and MOSS) for national implementation of the personal code? Is World Bank conditionality an appropriate response?

9. Mandatory health insurance

The GOAM is committed to implementing a mandatory health insurance scheme and has requested USAID assistance (through PADCO) in doing so. While USAID/Armenia wishes to be responsive to the MOH, there is some question as to whether this is an appropriate emphasis at this time. Specifically:

- PADCO's health finance consultants, who are well-respected by the MOH, have advised against the establishment of such a system at the moment
- The health assessment recommended that USAID shift support from establishing Mandatory Health Insurance to strengthening the GOAM's insurance function

Additionally, an early draft of the Financial Sector Assessment indicated that, according to second hand information, the MOH's proposed mandatory health insurance system does not incorporate international best practices.

Given the above, should support for mandatory health insurance be included in USAID/Armenia's new strategy? If so, to what extent? Should the allegation that the proposed system does not incorporate best practices be examined?

10. Inclusion of HIV/AIDS in the new strategy

Both the USAID-funded sector assessments and other reports highlight the myriad of critical issues facing Armenia and the Armenian people today. An HIV epidemic is not among them. Given this, does it make sense to add HIV prevention to USAID's strategy, thus diverting both human and financial resources from pressing problems that impact Armenians on a day-to-day basis?

The HIV/AIDS Situation Analysis argues that doing nothing is not an option. The analysis states that, due to USAID agency-wide focus on HIV/AIDS, USAID/Armenia will be required to contribute to at least some aspects of the regional initiative and that without an HIV strategy, USAID/Armenia may have no choice in what types of programs it will be required to implement. The HIV/AIDS/STI strategy proposes a strategic approach, including a strategic objective, five intermediate results and illustrative activities, that USAID could adopt under its new strategic plan.

Should HIV prevention and support be included in the new strategy? Is the proposed HIV/AIDS/STI strategy appropriate for the mission and should it be accepted? What are the implications of Armenia having been accepted as a recipient of Global Funds to Fight AIDS, Tuberculosis and Malaria? The World Bank plans to expand its HIV/AIDS efforts. Does the proposed strategy complement/reinforce Global Fund, World Bank and other donor plans/interventions?

11. Strategic approach to democracy and governance (D/G)

Although USAID/Armenia has been implementing democracy/governance programs for some time now, there has never been a well-thought out strategic approach to democracy to ensure that supported programs work together toward a common goal. The democracy and governance assessment confirmed that many of the current emphases are correct (media, local government,

rule of law). Nonetheless, it also identified some key areas in which USAID is not involved (the dominant executive branch, weak political parties)

Key issues that must be resolved in development of a D/G strategy include:

- Given that one of the major constraints to democratic development is the fact that most Armenians are more concerned with day-to-day survival than with participation and governance, what progress can realistically be expected during the strategy period? How can D/G programs best contribute to economic development?
- The D/G Assessment recommended that USAID focus its D/G efforts on three priority areas: rule of law, local government units and the media. Does USAID accept this recommendation? If so, what are the priorities for each area and what balance should exist between them?
- Alternatively, unequal application of the law and its "partner," corruption, have been cited as key constraints to development in Armenia. Should these be the main focus of USAID's D/G program? Are they within USAID's manageable interest? Should they be viewed as one problem, or two? Should USAID focus on only one aspect of rule of law/anti-corruption, such as the judiciary? Or, should rule of law/anti-corruption be integrated into all USAID programs as a crosscutting emphasis? Alternatively, USAID could adopt a dual approach, implementing both cross cutting and stand-alone program(s).
- To what extent are anti-corruption efforts constrained by the lack of an Administrative Procedures Act? If this is critical, how can USAID best support the GOAM and the German development agency, the GTZ, in passing such an act?
- Should USAID's involvement in anti-corruption directly support the GOAM's anti-corruption strategy?
- Is working with political parties within the manageable interest of USAID?
- USAID/Washington buy-ins, regional programs and political mandates will continue to influence the portfolio of activities in the D/G sector. How can the new strategy assist in rationalizing and consolidating activities to help ensure that all activities are work together to achieve maximum impact?

12. Court system

The entire Armenian court system is expected to receive an \$11.4 million loan from the World Bank. It is unclear whether a substantial portion of this will flow to the Economic Court. How can USAID best complement/collaborate with this?

13. NGO strengthening:

The strengthening of Armenian NGOs has been highlighted as an important input to Armenia's development. Several USAID-support programs already include NGO strengthening components and some encourage the development of social partnerships between local NGOs and the GOAM. The STP evaluation recommended that the mission redouble these efforts. Should USAID/Armenia accept this recommendation? If so, how can it best respond to the recommendation?

The STP evaluation suggested that USAID require that all U.S. NGOs have local partners. One task of the U.S. NGO would then be to strengthen the local partner, including developing and implementing a phase out plan for handing operations over to the partner. Is this a viable approach? USAID staff have indicated that experience in Armenia has shown that local NGOs that were adopted by U.S. NGOs tend to be less independent and more isolated than Armenian NGOs working on their own. How can partnering avoid this?

Alternatively, is there greater scope for directly funding Armenian NGOs as a means of helping to build their capacity? Performance funds recently began to be used to provide Armenian NGOs with funding for domestic violence programs, both the Chemonics rule of law and ABA/CEELI programs have provided small grants directly to Armenian NGOs for rule of law-related activities. Under the Social Transition Program, UMCOR, World Learning, Save the Children and Catholic Relief Services have all directly funded local NGOs. Are there other similar opportunities? Some USAID staff expressed the opinion that USAID has put millions of dollars into NGO strengthening over the past ten years and that it is now time to work directly with those NGOs, rather than through intermediaries. It appears that USAID encourages local NGOs to develop working relationships with the GOAM, yet hesitates to deal directly with the NGOs itself.

What other alternatives for NGO strengthening might be tried and tested under the new strategy? USAID/Armenia's evaluation of its direct assistance programs in the social and health sectors indicated that NGO partners need to be involved in the design and implementation of all aspects of a program to help transfer skills. The evaluation also found that in order to gain the maximum benefits for NGOs participating in direct assistance programs, NGOs needed to implement significant components of the programs--not just small, stand alone activities. How can these lessons learned be applied on a broader scale?

14. Direction for direct assistance

Given the high numbers of Armenians living below the poverty line, the need for continued direct assistance is evident. But, many questions remain as to the best means of providing direct assistance. Who needs direct assistance most? What type of assistance do they need? How can they most effectively be reached? How long should they receive assistance? And, what types of assistance can be most effective in linking them with economic opportunities that will improve their status in the long term? USAID's Direct Assistance Evaluation responded to many of these questions, while other assessments also provided input.

To date USAID direct assistance programs have provided food and basic medical care to the most vulnerable populations in five marzes and provided short-term employment opportunities to vulnerable populations in seven marzes. While these marzes were identified as those having the highest percentage of their population below the poverty line, the Direct Assistance Evaluation found that there are pockets of vulnerable groups in other marzes that are not being reached. It recommended that USAID use existing data to identify these groups and implement direct assistance programs in villages and towns with high levels of people living below the poverty line, regardless of which marz. The evaluation also highlighted the need to tailor programs to specific characteristics of the vulnerable in a region, indicating, for example, that marzes with

concentrated urban populations may have more elderly, whereas rural populations may be younger. Each group would have different needs.

The Social Transition Program mid-term evaluation indicated that children of weaning age are of greater risk of malnutrition than those of school age. The evaluation team then raised the question of whether targeting children of weaning age would be more appropriate than the current STP school feeding programs. The Direct Assistance Assessment concurred with this suggestion, recommending that school feeding programs be ended (given that the World Food Program would expand its program) and that a program to address the nutritional needs of children 0-2 be initiated.

The STP evaluation also noted that public works programs implemented by Save the Children Fund (SCF), achieved humanitarian goals without fostering dependency, indicating that this is an appropriate means of providing direct assistance. The Direct Assistance Evaluation recommended that these programs be linked to USAID activities that incorporate construction or renovation to achieve synergies and to provide longer-term benefits to communities. It also recommended that more women be involved in short-term employment activities. For longer term impact, the Direct Assistance Evaluation recommended that USAID strategically place some of its economic growth activities in regions with higher levels of poverty to increase employment opportunities.

As a development organization, USAID tends to believe that humanitarian-type assistance should include aspects of sustainable development. The Health Sector Assessment, however, argued that direct assistance programs are that and no more--that they should not be expected to be sustainable or replicable, that their goal is to address people's immediate needs. The assessment does agree, however, with the idea of having a phase-out plan. The Direct Assistance Evaluation recommended an intermediate approach, suggesting that direct assistance activities could be more directly linked with development activities. The Evaluation stated that since USAID can provide direct assistance in many forms (technical assistance, commodities, construction, etc.), it should design the direct assistance programs to complement development assistance programs. For example, public works programs could be used to renovate health facilities where USAID is implementing programs. The Direct Assistance Assessment also highlighted the potential for establishing partnerships with the diaspora to implement direct assistance programs.

Which of these recommendations/approaches make sense for USAID/Armenia under its new strategy? Can economic growth programs realistically be located in areas with high rates of poverty? Can direct assistance phase out plans include sustainable development activities, such as institutional development, that enable local NGOs to gradually assume program implementation (thus achieving synergies with NGO programs)? Should direct assistance programs be expanded to other marzes? Is a new program to address the nutritional needs of children 0-2 years of age within USAID's manageable interest?

15. Direction of human capacity development activities

In the mission's 1999-2003 Strategic Plan, training was identified as a cross cutting component. To achieve its training objectives, USAID/Armenia committed \$13,291,381 for the period 9/28/01 to 9/27/04 to the Global Training for Development project implemented by the Academy for Educational Development (AED). Individuals from GOAM agencies, NGOs and private sector organizations have been and continue to be trained under this program. In FY2001, 2007 individuals participated in training programs. In addition, significant amounts of on-the-job training take place within virtually all USAID projects.

According to the HCD Assessment, however, training is only one part of human capacity development. Other elements include adult learning and organizational development. The effectiveness of training is limited when these other elements are not applied. In particular, it is critical that the system in which training is to be applied is examined and adapted so that newly acquired skills can be put to use.

The HCD Assessment concluded that USAID's HCD efforts would be more effective if a holistic approach to capacity development that addresses not only training, but also adult learning and organizational development, were adopted. The Assessment recommended that such an approach should be grounded in performance improvement and then outlined the changes that would need to be made within USAID, its technical assistance contracts and its training contract to support a holistic, strategic HCD approach.

USAID/Armenia must decide whether to accept the recommendations of the HCD Assessment and whether the mission is willing and able to implement the changes outlined in the assessment.

16. Role of education in the strategy

To date USAID has not been explicitly involved in education. However, a number of education-related initiatives were carried out under the 1999-2003 strategy. The *Quick Education Sector Assessment* argues that, whereas the education-related projects themselves were well designed and implemented, they could have had accomplished more if they had been designed and conducted within a broader educational development strategy. The assessment then recommends that USAID develop a modest, tightly focused education program under its new strategy and makes suggestions for interventions at both the general education and higher education levels.

The mission needs to decide whether it should accept the recommendations of the assessment and become a "player" in a new sector. Some issues to be considered include:

- Is becoming involved in the education sector within the mission's manageable interest?
- What type of impact could be made with a "modest, tightly focused" program? Could such a program be designed not only to complement USAID's technical investments, but also to complement the GOAM/World Bank's major investment in education reform?
- What are the opportunity costs associated with becoming involved in education?
- What are the costs of NOT becoming involved in the sector?
- Could an education strategy (or at least guiding goals and principles) be developed that would increase the impact of USAID's education-related activities, without requiring broader involvement in the sector?

