



USAID | **ARMENIA**
FROM THE AMERICAN PEOPLE

Retrospective of USAID Assistance

From Relief to Development

The United States has been actively engaged with Armenia since it achieved its independence in 1991. Building upon shared values and the strong personal ties and commitment of the Armenian-American community, the two countries have forged a strong partnership. One of the key elements in that partnership is a significant program of assistance, in which USAID plays a prominent role.

Historically, USG has been the largest bilateral donor in Armenia with substantial part of its portfolio directed to provision of technical assistance and training. The high level of USG funding (U.S. government assistance to Armenia was among the very highest per capita levels of assistance worldwide) has given the USG the ability to be heard at the highest levels of government. Additionally, USG's long-term presence in Armenia has allowed for adoption of a long-term development perspective, which resulted in USG setting development goals and pursuing reforms that would not necessarily produce tangible results within one strategy period. These factors have given USAID a competitive advantage to employ a multi-faceted assistance approach whereby continuity and need to reform is balanced with more targeted and focused interventions. This approach is reflected in three subsequent strategies in which technical assistance to facilitate macro-level large scale reforms is balanced by direct assistance programs focusing on unmet needs and providing immediate assistance to the most vulnerable.

In 1988, an earthquake took over 25,000 lives and left about 500,000 Armenian families homeless. Shortly after, in 1991 Armenia's economic structures and trade relationships collapsed, following independence from the Soviet Union. Border closures by neighbors Turkey and Azerbaijan, due to the unresolved conflict with Azerbaijan over Nagorno-Karabakh, exacerbated these problems. In response to these events, USAID began work in Armenia in 1992 by providing humanitarian assistance.

Starting 1995, as humanitarian crisis in the country began to lessen, USAID has shifted its focus from provision of direct humanitarian assistance to a more direct involvement with Armenian Government and other local and international partners in putting in place key macroeconomic foundations, development of legislative framework and establishing institutions necessary for effective functioning of a democratic society. With only a few exceptions, Armenia has developed 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. Therefore, the last two strategies emphasize empowering agents of change and shifting the assistance approach towards certain segments of the Government and civil society that have the potential of becoming a generator of national prosperity. Current and new programs thus focus on the enforcement of existing legislation, enhancement of organizational capacity of partner institutions, creation of favorable business and investment environment, and improved service delivery.

Currently, the global crisis poses new challenges for Armenia's economy heavily relying on external sources of funding thus threatening to roll back economic gains of the past. Despite the fact that Armenia entered the crisis from a relatively robust position, the crisis is predicted to affect the country's economic standing. Therefore, USG current programming aims to address

effects of global crisis both on macro- and micro- level while supporting the sustainability and competitiveness of the country's economy, the development of its democratic institutions, and its capacity to provide adequate health and social services to its citizens.

Key Accomplishments of 17 Years of USG Assistance

There are certain areas in which USG is a recognized leader and its assistance programs played an important role in promoting relevant reform. These areas include earthquake zone recovery, energy sector modernization, water regulation, civil society development, social protection and social insurance systems, and primary health care reform. In other areas, such as humanitarian assistance, privatization, tax/fiscal reform, SME development, financial sector, governance, and justice sector, USAID has worked closely with or complimented other donors reform efforts, primarily World Bank and IMF.

Key accomplishments of USG assistance portfolio under both categories are listed below:

Humanitarian Assistance (1992-1998)

During the period 1992-1995, the U.S. assistance program in Armenia emphasized food, fuel, medicine and clothing. From 1992-1998 a total of \$750 million in American humanitarian assistance was delivered to Armenia. The provision of heating fuel to the vulnerable population and to schools, under the Winter Kerosene Program, provided the only source of heat to a large segment of the population for entire winters and the only source of heat for the majority of schools in Armenia. Each year 1993-1998 this program served over 200,000 households and over 1,200 schools. The program ended in 1999 at a reduced level. The U.S. also provided a heavy fuel oil, mazut, to central power plants over the period 1993-1995 which ended in 1996 in favor of provision of natural gas as part of restructuring of the state energy sector.

The U.S. wheat programs provided a life-sustaining food commodity during the period 1992-1995. During the peak years, the U.S. was supplying Armenia with half of its total requirements of wheat for bread consumption. U.S. wheat shipments were systematically reduced as privatization proceeded and domestic Armenian wheat production increased. In addition to fuel and wheat, additional assistance to alleviate suffering and assist social progress included \$180 million in privately donated and Department of Defense excess property food, clothing, shelter, medicines, and medical supplies and equipment.

Privatization (1998-2002)

USAID assisted the Ministry of Privatization (later renamed Ministry of State Property Management) from 1998 to 2002. The primary objective was to develop a strategy for the privatization of Armenian Airlines (AA) and for the reform of the aviation sector in general. Other objectives were to assist the GOA with the privatization of other "strategic" enterprises (state-owned enterprises (SOEs) that were, or were likely to become, the focus of serious international interest) and to support the privatization of enterprises through bankruptcy and liquidation procedures. In 2001, the USAID Mission determined that support for general privatization of state-owned holdings would cease due to the shrinking pool of companies to be privatized, and since most enterprises could not be sold in an orthodox, transparent manner. The primary achievement was assistance in the privatization of five SOEs: the electronics producing enterprise Mars, Ararat Cement, Sapfir, Armenia's sole producer of synthetic sapphire, Yerevan Jewelry Factory and Almast. The work on the five strategic enterprises was frustrated not only by internal governmental issues, but also by last-minute withdrawals from qualified investors. USAID assisted in financial audit preparation, legal review, and a strategy for privatization in Armenian Airlines.

The USG Earthquake Zone Recovery Program (2001-2005)

The United States was among 74 countries that responded to the announcement by Soviet officials that they would accept external assistance following the earthquake of December 1988. The Armenia earthquake recovery efforts marked the first time since World War II that the Soviet Union accepted disaster assistance from the U.S. Government. U.S. immediate assistance totaled over \$9 million, of which \$5 million was authorized by the Congress for humanitarian assistance channeled through U.S. non-governmental organizations. Following independence, the Government of Armenia maintained the same overall approach to recovery as the Soviets, relying on new construction to re-house displaced families in new multi-unit residential buildings. However, without adequate resources to support the planned building, this soon became unsustainable. By 1998, the Government's entire earthquake zone recovery effort had stalled.

In 1998, the Urban Institute (UI) concluded that massive emigration since the 1988 earthquake combined with privatization of the national housing stock after Armenian independence had created optimal conditions for a voucher program. USAID successfully tested use of a voucher system in a pilot program (2000-2001) in Gyumri and implemented the full scale housing certificate program (2001-2005) in cooperation with the Government and a group of private foundations and public organizations in the Armenia Earthquake Zone Alliance. USAID's \$35 million Earthquake Zone Recovery Program was designed to provide permanent housing to at least 4,000 households in Lori and Shirak regions. The program's core achievements:

- 7,000 families (representing about 30,000 persons) received permanent housing
- Over 120 municipal sites were reclaimed by clearing of temporary shelters in 5 cities
- Over 100 public buildings (schools, kindergartens, museums, etc.) and sites (parks and squares) were cleared of displaced residents and reclaimed for public use

Since the end of the USAID-financed program, the Government of Armenia has been replicating the use of the housing certificate model to date and has distributed certificates to 1,300 homeless families out of 6,950 in need as of June 2007. 1,000 households have already purchased homes, while another 480 are to be provided with similar certificates in 2009.

Energy Sector (1996-2009)

In Armenia, USAID provided notable assistance to restructure and privatize the energy sector and the country now has reliable, affordable electricity and natural gas supply. With donor assistance, including USAID as a main donor supporting sector reforms, the Government of Armenia has taken steps to improve energy sector performance. Nuclear energy was reintroduced in 1995 and the reliability of supply has increased. Non-payment by customers has been substantially reduced with virtually all private consumers now paying for their energy use. An energy law setting forth the principles for the regulation of the energy sector was enacted and an energy regulatory commission was created. The electric and gas sectors were reorganized, and international accounting standards were introduced. The gas industry and the electric distribution company have been privatized. Each of these reforms has contributed to Armenia's economic growth since the mid-1990s.

Implementation of an aggressive commercialization and privatization strategy resulted in the significantly improved quality of service and financial health of the sector. In addition, with USG support the national strategy for long-term development of Armenian power sector was developed and endorsed, and new standards for power industry enforced. In large measure, the USG programs have completed their main goal of completing sector macro-level reforms and putting the energy sector onto a sustainable path.

During 2004-2007, twenty-six USAID non-heat energy efficiency and renewable energy pilot projects were designed and completed for a total cost of \$400,000. Not only do the pilot projects provide better services and cost savings, but in their small way, they reduce carbon dioxide emissions that produce global warming and nitrous oxides that produce smog. USAID program

on Commercialization of energy efficiency allowed improving energy services for 14,500 people and garnering a 50% cost share from our partners. USAID assisted Armenian government in assessing the viability of a new nuclear unit Armenia implementing an extensive series of 15 planning studies to review the potential for replacing the aging nuclear power plant. USAID assistance supported the installation of reliable heating systems in 38 Armenian schools, thereby improving the social and health conditions of over 20,000 students and teachers and enabling those schools to remain open during the winter.

Water Regulation and Management (2000-2009)

USAID is the only donor that has been involved in macro level water sector reform, specifically focusing on development of regulatory framework, sector restructuring and creation of institutional framework. As a result of USAID technical assistance "Water Code of the Republic of Armenia" was developed and adopted. USAID assisted institutional reform resulted in establishing the Water Resources Management and Protection Agency, and combining the Environmental Monitoring Center with ArmHydromet. Additionally, 72 water monitoring posts, in the Sevan-Hrazdan Basin; on the Araks River (that is the border with Turkey), and in the Debed Basin (that flows into Georgia), were equipped and renovated. USAID supported capacity building for public awareness and clean-up on selected lakes and rivers. A model waste water treatment system for industrial pollution was among USAID-supported activities that support business development while enhancing environmental quality. Public participation and local capacity for integrated river basin planning in the Debed-Khrami Basin was strengthened, enhancing democracy as well as improving water management.

Civil society and Media (1995-2009)

The USG has contributed significant resources to advance the process of democratization in Armenia by developing a vibrant civil society and independent media. Over the last decade, USG has supported cultivation of democratic institutions and worked towards building a democratic culture, which increased competition within elite circles and de-concentrated power by assisting grassroots efforts and NGOs with programs aimed at increased civic representation of the middle class and other agents for change. A number of USG interventions have led to increased capacity of civil society groups to provide policy advice and serve as watchdogs, strengthened financial viability of NGOs to ensure their sustainability, as well as improved legal and regulatory framework for NGOs operations. USAID has been a lead donor in supporting the formation and development of independent media in Armenia. While there is room for further improvement in this area, long-term support for print and broadcast media has enhanced independent media outlets' professionalism and improved their prospects for financial viability.

Decentralization (1995-2009)

USAID has assisted local governments in Armenia to improve their internal management systems and their ability to implement transition reforms, to strengthen their oversight and fiscal responsibilities, and to help them increase their public accessibility and accountability. Recent USAID assistance has resulted in substantial improvement of service delivery by local governments in 38 cities of Armenia.

Justice sector/Rule of Law (1995-2009)

USG assistance in this area targets judicial and legal reform, enhancing the ability of the bar and judiciary to act as independent and impartial participants in, and commentators on, the legal reform process. One key effort builds the Prosecutor General's ability to investigate and prosecute complex cases. USG assistance also promotes prosecutorial compliance with Council of Europe and other international rule of law standards that give prosecutors and defense attorneys equal standing in the courts. The USG provided extensive expert commentary to the Judicial Code that incorporates many of the 2005 constitutional reforms. The new Code is comprehensive and touches upon nearly every aspect of the judicial sector, including the

establishment of new courts and court jurisdictions, judicial selection, judicial education and judicial discipline.

Tax/Fiscal Reform (1998-2009)

During the past ten years (1998 – 2008) USAID had three activities to address tax and fiscal issues. The first activity from 1998-2001 focused on computerization of the tax system. As a result, all of the State Tax Service offices now had computers and electronic data collection records, an important step forward from the manual systems which had previously been used. The second activity, 2001- 2004, continued to assist STS in training, study tours, compensation changes, taxpayer information, and information technology upgrades. As a result, the GOAM achieved strides in developing a functioning tax system on the ruins of a centrally planned economy, in which taxes did not exist in a market sense. For instance, some existing tax collections forms developed in the Soviet period still called taxes “contribution to the budget.” Thus, while the tax system was established, tax officials still were doing to do their jobs. There was still a long way to go to instill into citizens the tax paying discipline for the public good, and having a professional public service corps at the STS. The main success related to Tax achieved of the two earlier projects was to reduce staffing (20% reduction), computerize the STS offices and improve taxpayer information among other accomplishments. The Tax Service was also introduced to many new concepts for modernizing the tax system, though most were only partially adopted. The main successes of the Tax Improvement Project was an increase in the Tax/GDP ratio (the prime contract goal), an improvement in understanding of management of how to better manage the tax service, and to secure STS agreement to organizational restructuring along more modern lines.

SME/Industry Development (1997-2009)

Support to micro, small and medium enterprises has been a focus of USAID/Armenia's programs. Over 7,700 micro-entrepreneurs have received USAID-funded loans totaling nearly \$7.6 million dollars. Over 500 small- and medium- enterprises (SMEs) received another \$3.1 million in loans. USAID's Medium Enterprise Development Initiative increased access to finance by introducing purchase order financing with injected at least \$5.8 million in short-term working capital; contributed to a 52% increase small businesses registration and the creation of 23,000 jobs outside Yerevan, in 2005; and achieved small business sales and investment growth of \$750,000, which translated into employment growth of 25 % in client businesses and represented a \$7.50 return on USAID's investment for every \$1 spent. With its Agriculture SME project overall 141 firms have received direct assistance; the average jobs created, per enterprise, was about 48 and five companies have increased sales by more than \$1 million per year, eleven by more than \$500,000 and 23 by more than \$100,000.

Under the current Competitive Armenian Private Sector (CAPS)project, USAID provided assistance to 34 private companies in IT, tourism, and pharmaceuticals sectors to improve management, marketing and governance practices; 14 companies invested in improved technologies; strengthened capacity of sector associations and business service providers; USAID has spurred considerable growth in Information Technology and Tourism through increasing companies' skills to conduct business, helping industry associations and assisting academia and training institutions to prepare qualified workforce. In 2008, USAID assistance contributed to the creation of 2,697 new jobs as well as a 26% increase in sales in the tourism sector and 15% in Information Technologies (IT) sector. To ensure the availability of quality workforce for the dynamic IT sector, USAID worked closely with industry on workforce development and improvement of management and business practices. Activities aimed at curricula reform for academic and vocational courses, increased capacity for companies' human resources management, wider use of modern business skills, and improved job placement services.

Financial Sector Reform (1999-2009)

Over the past decade USAID/Armenia has devoted significant resources to developing the required infrastructure for a vibrant financial system. This development effort has led to the creation of the required building blocks for an effective, modern system, including the basic legal and regulatory framework, a strong financial regulator in the form of the Central Bank of Armenia, electronic market systems for currency and securities, the required clearance and settlement systems and central depository, new information nodes such as the credit bureau, stock exchange disclosure filings and a growing financial media, and private sector participants in each of the financial system's sub sectors.

As a result, the indicators of financial system activity have begun to increase significantly. All of this indicates that the architecture that USAID has helped to create is now gaining "traction" and that more and more potential users of financial system products are turning away from the old "informal" ways of financing their activities to the more organized and official markets. Beginning in 2008, however, this dynamic appears to be changing. Though Armenia's banking system remains liquid, its economic vulnerabilities have been exacerbated by the crisis. The global financial crisis poses new challenges for Armenia's economy heavily affected by declining commodity prices for mining exports and reduced remittances threatening to roll back recent economic gains.

Social Protection and Social Insurance Systems (1996-2009)

Our interventions in social sector have resulted in the introduction of the Social Security Card that assigns a unique number for each individual with the intention of improving the quality of social services, simplifying procedures for eligibility and claims processing, and reducing corruption. Currently, more than 80% of the Armenian population has and uses a social security card. A Personal Account Registration, Numbering and Analysis System (PARNAS) that enables the social security system to track all contributions paid by and on behalf of individuals into the State pension fund was developed and introduced. In the meantime, efforts aimed at improving the livelihood of the most vulnerable have resulted in renovation of orphanages, nursing homes, hospitals, kindergartens, and schools for the handicapped throughout Armenia. Many of these programs were accomplished through Public Works Programs which provide work opportunities and training for the unemployed and engage communities in the development process. Food provision and social services provided daily to 8,000 vulnerable elderly individuals in 6 Marzes throughout Armenia. In the area of labor market development the capacity of the State Employment Services Agency (SESA) has been strengthened to address the needs of the unemployed resulted in increase utilization of SESA services by 20 percent in 2008.

Primary Healthcare Reform (1998-2009)

USAID has developed an innovative health care reform strategy repositioning development efforts from providing humanitarian assistance, renovation and trainings to institutionalizing these gains for long-term Government of Armenia support and maintenance of quality health services throughout the country. Overall the USG has renovated, equipped, and trained staff of nearly 50% of the neediest rural health clinics throughout the country. USG assistance directly contributed to reductions in maternal mortality by reducing post-partum hemorrhage rates - the leading killer of women during delivery - going from 5.4% in 2005 to 1.7% in project supported facilities. The USG supported the development of a successful Round 8 Global Fund application, contributing over \$2 million dollars to strengthen health systems to address HIV/AIDS and TB in Armenia. Our efforts have contributed to greater government spending on Primary Health Care, which increased from 15% to 35% over the last 10 years. USAID has been a lead donor in helping the Government of Armenia to introduce and utilize a model of family medicine.

Current Strategy (2009-2013)

Over the five-year period the USG can and will work to accomplish this strategy by focusing on the following areas:

Peace and Security

The Mission's efforts focused on cross-border relations will increase in intensity and will support initiatives to promote regional cooperation. Achieving a rapprochement with neighboring Turkey will lead to short-term improvements to Armenia's economic development and regional stability, and incalculable benefits for Armenia's long-term future.

Economic Growth

Our activities in the area of Economic Growth are directed towards improving national competitiveness and unleashing the potential of the private sector and increasing research and development to foster innovation. More specifically, our new programs will work in:

Fiscal Policy: USAID new project will support the reform at the State Revenue Committee to improve tax processes and make them more business friendly. Special attention will be given to audit, VAT refund and taxpayers services.

Trade and Investment: USAID is planning a new program that will aim to increase exports and remove constraints to investment and trade by providing technical assistance, training, and capacity building to the Government of Armenia and the private sector.

Financial sector: New activities in this area will build upon previous achievements to ensure the financial sector enabling environment development. More specifically, through targeted assistance USAID will ensure that the financial system is transparent, stable, sound, and safe, as well as will focus on working with the intermediaries on increasing access to financing to SMEs.

Energy: To achieve a long-term goal to help Armenia to strengthen the foundation for its energy independence and security USAID will provide long-term advisory services to the Government in ensuring that the new Nuclear Unit meets western safety and environmental standards. Proposed technical assistance will also help to improve enabling environment for development of renewable energy in Armenia and support Armenia's integration to regional energy systems and markets.

Water: USAID new program will complement previous work done in the sector and assist the county in completion of reforms gaps, specifically focusing on water and sanitation sector financial options, improvement of regulatory environment and water quality assurance procedures, as well as carry out focused relative risk analysis to identify wastewater investment priorities needed to minimize risk of food crop contamination from irrigation water.

Communications: New activity will work to support and accelerate telecommunications reform in Armenia through assisting to create technically competent and publicly responsible regulatory oversight, which is an essential part of the necessary infrastructure.

Democracy and Governance

The USG seeks to advance the process of democratization in Armenia by developing a vibrant civil society, capable and transparent democratic institutions and independent media. The long-term goals are to cultivate democratic institutions and build a democratic culture, increase competition within elite circles and de-concentrate power by assisting grassroots efforts and NGOs with programs aimed at increased civic representation of the middle class and other agents for change. Our new programs will address following issues:

Alternative media: The medial outlets in Armenia that are financially independent, even the non-public stations, still self-sensor, offer partial coverage in the news and collude with the established powers. This, combined with indirect government pressure is the real roadblock to progress. As such, USAID has a unique opportunity of refocusing its resources in an attempt to respond to changed realities empowering alternative media. The new approach towards

alternative media will have three directions: 1) production and distribution of alternative content; 2) Promotion of alternative media; 3) a monitoring/advocacy/legal component.

Civil society: USAID plans to start new Civil Society activity and will work on increasing the capacity of civil society groups to provide policy advice and serve as watchdogs, strengthen financial viability of NGOs to ensure their sustainability, as well as assist in improving legal and regulatory framework for NGOs.

Rule of law: Building institutional capacities and individual skills of key actors in the justice system is a challenge Armenia will face for years. USAID assistance will primarily strengthen the bar, improve the quality of legal education, raise ethical standards of judges, and extend technical support on key legislation. ABA/ROLI will continue to provide selective technical support to judges on the European Court of Human Rights (ECHR) case law.

Parliamentary Assistance: USAID is planning to cooperate with at least one leading parliamentary committee on institutional development and public outreach reform. Assistance will also target selected staff members who provide services to the committees.

Political Processes: To address the imbalance in the distribution of political power within Armenian society USAID will enhance the capacity of citizens to organize and engage proactively in political processes and assist local-level political party and issue-oriented civic organizations in establishing links with similar local organizations throughout Armenia and expand active civil society monitoring.

Social and Health Portfolio

USAID activities in social and health areas will build upon accomplishments of the previous USAID strategy, continuing to focus on increasing the use of improved health and social services for Armenia's most vulnerable populations. At the same time, USAID's activities will serve as a catalyst for change by promoting the adoption of international best practice, policy reform, and system strengthening for enhanced efficiency. Central themes of USAID's social and health portfolio are to encourage appropriate roles for the private and public sector- which in Armenia translates into an increased role for the private sector with appropriate government oversight - and increased capacity of government and the non-governmental sector in service delivery.

Labor Market and Pension Reform: To further improve social protection systems, USAID will target four specific areas: 1) building GOAM's institutional and human resource capacity to implement a multi-pillar pension system; 2) giving greater attention to countering the effects of the global economic crisis which significantly affected the already inefficient Armenian labor market, 3) improving Armenia's workforce readiness and competitiveness with an integrated economic and social approach; and 4) better targeting of social assistance benefits and services to the most vulnerable, including increasing public-private partnerships in provision of services.

Maternal and Child Health, Reproductive Health and Family Planning: USAID will provide technical assistance to support high-impact maternal and child health and reproductive health and family planning interventions in Armenia, focusing on reduction of maternal and under-five mortality by establishing an effective continuum of care to deliver essential services for mothers and children at critical points in adolescence, pre-pregnancy, pregnancy, birth, and early childhood.

Tuberculosis: USAID will scale up support to the Ministry of Health and the Armenian National Tuberculosis Program to promote nationwide TB coordination, improve the quality of TB diagnostic and treatment services through the PHC system targeting rural vulnerable populations.