

**AMERICAN UNIVERSITY OF ARMENIA**

**IMPLEMENTATION OF UN MDG 1 IN ARMENIA**

**POLICY PROJECT SUBMITTED TO THE FACULTY OF THE  
GRADUATE SCHOOL OF POLITICAL SCIENCE AND  
INTERNATIONAL AFFAIRS FOR THE PARTIAL  
FULFILLMENT OF THE DEGREE OF MASTER OF ARTS**

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# *Acknowledgement*

*The preparation of this Policy Project would have not been possible without the support and valuable contributions of a number of individuals and organizations. I am very grateful to my Faculty Advisor, Dr. Syuzanna Vasilyan for her valuable contribution and input in drafting sections of this project.*

*I would like to express my deepest gratitude to my dean Dr. Shumavon Douglas, as well as the whole staff of the School of Political Science and International Affairs of American University of Armenia for their patience, encouragement, hard work and cooperation in developing profound knowledge and skills in me, which helped me through my course at AUA and through the development of this paper.*

*Thanks also go to Vrej Jijyan, program analyst in UNDP for his assistance and support, as well as other experts from UN and other organizations.*

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## **ABBREVIATIONS**

**PRSP**- Poverty Reduction Strategy Paper

**SDP**- Sustainable Development Program

**OECD**-Organization for Economic Cooperation and Development

**MDGs**-Millennium Development Goals

**WB**-World Bank

**IMF**-International Monetary Fund

**ODA**-Official Development Assistance

**IDGs**-International Development Goals

**MTEF**-Medium-Term Public Expenditure Framework

**NSS**-National Statistical Service

**SME DNC**-Small and Medium Entrepreneurship Development National Center of Armenia

**FBS**-Family Benefit System

**WTO**-World Trade Organization

**UNHSTF**-UN Human Security Trust Fund

**CSOs**-Civil Society Organizations

**UNDAF**-United Nations Development Assistance Framework

**NSMS**-Official Bulletin of RA, Network Systems Management Services

**MLSA**-Multilocus Sequence Analysis

**CPAP**-Country Program Action Plan

**CDP**- Community Development Project

**VET**-Vocational Education and Training Project

**EBRD**-European Bank for Reconstruction and Development

**SCWS**-State Committee of Water Systems

## **ABSTRACT**

The purpose of this Master's policy project is to describe the implementation of Millennium Development Goal 1 in Armenia both by United Nations and Armenian MDG implementation team. The paper is expected to focus on the following aspects: presenting an overview of different concepts of poverty, describing the economic condition in Armenia at the time MDGs came into being, activities of both UN's and Armenian team towards poverty reduction and overall human development, discussing and analyzing programs for alleviation of this problem. In the end recommendations will be given in this regard.

**“...the greatest cause of suffering  
on Earth is extreme poverty”  
WHO**

## **Introduction**

Being the cornerstone of the world cooperation and peace, the struggler for and advocate of human well being, the UN undertook the responsibility to struggle against poverty-a worldwide, long-lasting plague, an evil for humanity.

To overcome poverty, under the UN Millennium Declaration 191 countries committed themselves to halving poverty by 2015 and in meeting the related economic and social development goals. On September 6-8, 2000, all UN member states signed the Millennium Declaration during the Millennium Summit, and pulled their states into global cooperation aiming to eradicate extreme poverty and also accepting several provisions to be reached by the whole world by 2015. These same provisions became the Millennium Development Goals. Both the developed and developing countries, the North and South, East and West pledged to reach the minimum development agenda that the MDGs represent<sup>1</sup>.

Armenia was one of the 191 countries that signed the Millennium Declaration, therefore, also pledging to reach the goal of halving poverty by 2015. The objective of my policy paper is to study MDG number one within the institutional framework of the United Nations and its implementation in Armenia.<sup>2</sup> The aim is to study how the UN and Armenia promote and contribute to the implementation of MDG 1 in Armenia, what has been accomplished thus far and what are the open and essential issues in this sphere that need to be addressed and resolved.

I argue in the paper that the first reason why MDG 1 is not likely to be achieved by 2015 is the lack of capacity of the Armenian government, the second one is the UN being a weak player in implementing the goal and the third one financial crisis as an undermining factor

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<sup>1</sup> [www.un.am](http://www.un.am)

<sup>2</sup> *ibid*

impeding the achievement of the goal. My focus in this policy paper will be the degree to which this goal is likely to be achieved in Armenia. I will try to map out the progress made to date and what types of problems, if any, continue to remain unresolved and the respective reasons. Though the stress in this policy paper is on the first goal, I will cover other MDGs too, as they are also linked to poverty. Finally, I will analyze findings and present recommendations with the aim to provide guidance on to how this goal can be achieved.

## **Methodology**

A mixed method approach will be used in this policy paper, including secondary data analysis of available macroeconomic and financial data; and analysis of primary data obtained through interviews with experts from the UN, other donors, as well as Armenia MDG implementation team.

## **Problem**

Third World countries are often described as “developing” while the First World, industrialized nations are often “developed”. The developing countries are those who have to deal with poverty. Before coming to poverty in Armenia, a developing country, conceptualization of poverty is needed. The World Bank defines poverty “as a deprivation in well-being which is comprised of many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one’s life”<sup>3</sup>. According to the World Bank (quoted in PRSP, 2003), poverty is manifested as:

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<sup>3</sup> [www.worldbank.org](http://www.worldbank.org)

- *Lack of opportunity*: Low levels of consumption/income, usually relative to a national poverty line. This is generally associated with the level and distribution of human capital, social assets and physical assets, such as land. Market opportunities determine the returns on these assets. The variance in the returns to various assets is also important;
- *Limited capabilities*: Little or no improvements in health and education indicators among a particular socio-economic group;
- *Low level of security*: Exposure to risk and income shocks, which may develop at the national, local, household, or individual level;
- *Empowerment*: Empowerment is the capacity of poor people and other excluded groups to participate, negotiate, change, and hold accountable those institutions that affect their wellbeing.

Based on the World Bank's definition, Poverty Reduction Strategy Paper (2003) of the Republic of Armenia defines poverty "*as the impossibility to meet minimum biological, social, and cultural needs. "Biological needs" should be perceived as meeting minimum food and personal hygiene needs, as well as minimum seasonal clothes, a residence and the affordability of a minimum consumption of water, heating and electricity. "Social needs" include health, education, job, and minimal social life (marriage, birth, and death-related ceremonies), interaction with judicial systems together with relevant material capacities, stability of intra-household relations and the accessibility of minimum information (press, television, radio or other mass media), as well as socializing with other people (telephone, transport, other means of communication), and possibilities to participate in public events. "Cultural needs" include a minimal affordability of spiritual and cultural activities (not in the context of subjective demands and perceptions, but rather by objectively-defined groups, such as a minimal participation in traditional ceremonial life, opportunities to read, listen to music, etc.).*"<sup>4</sup>

The UN defines poverty as being "a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go, not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means

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<sup>4</sup> PRSP, 2003

insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living in marginal or fragile environments, without access to clean water or sanitation”<sup>5</sup>

### **Poverty in Armenia**

The collapse of the Soviet Union in 1991 had severe repercussions for most of the newly independent states. Many countries of East Europe went through the processes of modernization in terms of economic development and democratic consolidation, while many other countries are still facing political and economic hardships. Being inexperienced and having no historical precedents for transition to democratic market economy, the newly independent states found themselves in a situation of facing poverty, unemployment, illiteracy and migration. Armenia as part of the former Soviet Union could not escape the challenge of poverty. In addition, the Government of Armenia had to find solutions for sheltering hundreds of thousands refugees from Azerbaijan, erasing the damage of the devastating 1988 Spitak earthquake, rehabilitation of the border areas that had suffered from shelling by Azerbaijan because of the Artsakh conflict, etc. 360.000 refugees flowed from Azerbaijan into Armenia because of the Karabakh conflict. As a result, the vast majority of these refugees were added to the number of people in need for social protection. The consequences of the conflict were not limited to the refugee. More than 100 populated areas in a number of bordering regions were annihilated because of bombing from Azerbaijan and more than 70 000 people left their homes: thus becoming the group of internally displaced persons.<sup>6</sup> According to PRSP (2003) assessments Armenia faced the largest GDP decline among CIS countries in 1993, which was 46.9% of the 1990 level. As a consequence of the deep economic crisis some 645 000 jobs were cut in the non-agricultural sector of the

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<sup>5</sup> [www.un.org](http://www.un.org)

<sup>6</sup> PRSP, 2003

economy. In agriculture, however, from 1991 to 1992, as a result of land privatization, the number of jobs increased by almost twice and, subsequently, productivity fell more than twice, enabling a huge segment of the population to survive the economic crisis.<sup>7</sup> Moreover, the Soviet collapse led to destruction of trade routes and dramatic increase in transportation costs. As a result, GDP declined for 55% in 1990s. Economic growth in Armenia restarted in 1994. It has continued at quite a high rate, averaging 6.68% in 1994-2002. The main growth factor has been the start of large-scale financial inflows thanks to macroeconomic stabilization, and the adoption of a liberal model of economic and trade regulation. The two sources of financing were official foreign and international assistance, which averaged some 7% of GDP, extended mainly through grants and concessional loans, as well as a substantial inflow of unofficial money transfers. These averaged around 8-9% of GDP. Those who have migrated from Armenia made unofficial money transfers. It was a considerable financial support for the country's recovery. Besides, the economic expansion in Armenia can be conditioned by the reopening of the Armenian Nuclear Power Plant, stabilized exchange rate of the Armenian dram and mass privatization. Thus, Armenia succeeded in increasing real GDP rates and securing economic growth. As a result, the GDP started to grow by 6 percent annually from 1996 to 2000. The overall poverty declined from 56% in 1998 to 32% in 2003.<sup>8</sup>

**Table 1. Poverty and economic growth in 1996 and 1998**

	<b>1996</b>	<b>1998</b>
Number of poor population, %	54.7	49.1
<i>of which number of very poor population,</i>	<i>27.7</i>	<i>15.3</i>
Number of non-poor population, %	45.3	50.9

<sup>7</sup> ibid

<sup>8</sup> ibid

Number of poor population, urban, %	58.8	55.0
<i>of which number of very poor population, urban, %</i>	<i>29.6</i>	<i>17.7</i>
Number of non-poor population, urban, %	41.8	45.0
Number of poor population, rural, %	48.0	40.6
<i>of which number of very poor population, rural, %</i>	<i>24.4</i>	<i>11.9</i>
Number of non-poor population, rural, %	52.0	59.4
General poverty threshold, dram per month	10 784	12273
Poverty food threshold, dram per month	6612	7525
GDP in 1996 prices, Q4, billion drams	223.3	250.4
GDP growth rate 1998 Q4/1996 Q4, %		12.1
Poverty reduction / economic growth, percentage points		0.4628

Source: Armenia. Poverty Update, WB, 2002: Data on 1998 reflect information of the 1998/99 Survey pertaining to Q4 1998.

**Table 1.1 Poverty in 1998/99 and 2001\***

	<b>1998/1999</b>	<b>2001</b>	<b>2001/1999**</b>
Sum of poor people (the poor and the very poor)	55.05	50.9	-7.53
including Urban	58.27	51.9	-10.93
<i>of which: Yerevan</i>	<i>55.17</i>	<i>46.7</i>	<i>-15.3</i>
<i>Other cities</i>	<i>61.68</i>	<i>56.7</i>	<i>-8.07</i>
Rural	50.76	48.7	-4.05
Including number of very poor population, %	22.91	16.0	30.16
including Urban	23.17	18.3	-21.01
<i>of which: Yerevan</i>	<i>21.45</i>	<i>16.8</i>	<i>-21.67</i>
<i>Other cities</i>	<i>25.47</i>	<i>19.6</i>	<i>-23.04</i>
Rural	22.55	11.3	-49.88
Gini coefficient of income concentration	0.593	0.535	-9.78
including Urban***	0.529	0.466	-11.9
<i>of which: Yerevan</i>	<i>0.507</i>	<i>0.458</i>	<i>-9.66</i>

<i>Other cities</i>	0.56	0.477	-14.82
Rural	0.632	0.583	-7.75
Gini coefficient of consumer expense concentration	0.372	0.344	-8.75
<i>including Yerevan</i>	0.434	0.352	-18.89
General poverty threshold, dram/month	11735	12019	2.4
Food poverty threshold, dram/month	7194	7368	2.41
Depth of poverty, %	19.0	15.1	-20.52
Degree of poverty, %	9.0	6.1	-32.2

\* *Estimations made per capita.*

\*\* *Changes of indicators are calculated in percents.*

\*\*\* *Gini<sup>9</sup> coefficients of income concentration are calculated for the households that showed current income.*

*Source: 1998/99 and 2001 household surveys.*

### **Why the first goal in Armenia?**

If poverty is not eradicated, it may lead to both physical and psychological repression. Besides hunger and unemployment, poverty may cause spread of illiteracy, child crudity and mortality, poor health and decreased life expectancy, lack of sanitation, an unhealthy environment, thus damaging future generations of the country. Eventually, voicelessness and powerlessness may result from poverty. People living in absolute poverty<sup>10</sup> often have no political power and are subjected to exploitation by the state. The voicelessness and powerlessness of poor create a continuous cycle that deliberately separates the poor of a country

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<sup>9</sup> The Gini coefficient (also known as the Gini index or Gini ratio) is a measure of statistical dispersion developed by the Italian statistician and sociologist Corrado Gini. The Gini coefficient measures the inequality among values of a frequency distribution (for example levels of income).

<sup>10</sup> Absolute poverty or destitution refers to lack of basic human needs, which commonly includes clean and fresh water, nutrition, health care, education, clothing and shelter. About 1.7 billion people are estimated to live in absolute poverty today.

from the rich. Another effect of poverty is vulnerability. Natural disasters, economic crises, and conflict leave the poor very vulnerable with nobody to help and lack of resources to use to help themselves. Besides, poverty and conflict are closely linked. Unfair distribution of wealth, power and land create a conflict among people.<sup>11</sup> Though, Armenia is not comparable with poor African states, where almost all the above mentioned points are existent, the problem of poverty is actual and subject to discussion also here. According to the PRSP (2003) of the Republic of Armenia if not to solve the problem of poverty, the following threats and consequences may deepen in the country

- Persistence of social polarization in the country may deepen the cleavage among various social layers, which in turn jeopardizes the socio-economic development of the country and the establishment of a strong state, since the perception of national and social interests will gradually fade away;
- High poverty rates hamper the establishment of civil society and harmony, hence the establishment of a country dominated by the rule of law and democracy;
- The poor – a group of many thousands – continues to lag behind general human development norms, which will result in degradation of human capital;
- Widespread poverty restricts the potential for self-confidence and actualization, as a result of which the most creative part of the population is forced to emigrate. The demographic, social and economic consequences of this are already evident today;
- Persisting impoverishment enhances passiveness, psychological depression, nihilism and pessimism amongst the vast majority of the population. Consequently, the motivation,

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<sup>11</sup> [www.vuwcu.orconhosting.net.nz](http://www.vuwcu.orconhosting.net.nz)

initiative, and participation of the population in the social, economic, and socio-cultural life of the country are reduced to a minimum.

Despite the steps taken with the aim of eradicating poverty both by Armenia and the international community, the issue of poverty is still persisting. By tackling poverty, we could successfully deal with other socio-economic, political, health, educational, and demographic problems, as it is poverty that gives birth to diverse problems both for the country and its people.<sup>12</sup>

### **MDGs established**

On 17 December 1998, the General Assembly of the United Nations adopted resolution 53/202 by which it decided to convene the Millennium Summit of the United Nations as an integral part of the Millennium Assembly of the United Nations. The Summit opened at United Nations Headquarters in New York on 6 September 2000 (resolution 53/239).<sup>13</sup> The Millennium Summit was presented with the report of the Secretary-General entitled ‘We the Peoples: The Role of the United Nations in the Twenty-First Century’<sup>14</sup>. An input was prepared by the Millennium Forum, which brought together representatives of over 1,000 non-governmental and civil society organizations from more than 100 countries. The Forum met in May 2000 to conclude a two-year consultation process covering issues such as poverty eradication, environmental protection, human rights and protection of the vulnerable. In the Millennium Summit all 191 world leaders present adopted the United Nations Millennium Declaration, pledging to fight global poverty. The plan laid out eight goals, known as the Millennium

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<sup>12</sup> PRSP, 2003

<sup>13</sup> <http://www.un.org/millennium/backgrounder.htm>

<sup>14</sup> <http://www.bwpi.manchester.ac.uk/resources/Working-Papers/bwpi-wp-1607>

Development Goals, to be completed by 2015.<sup>15</sup> Thus, MDGs originated from the Millennium Declaration, which asserts that every individual has the right to dignity, freedom, equality, a basic standard of living that includes freedom from hunger and violence, and encourages tolerance and solidarity.<sup>16</sup> The Millennium Declaration was, however, only part of the origins of the MDGs. It came about from not just the UN but also the Organization for Economic Cooperation and Development (OECD), the World Bank (WB) and the International Monetary Fund (IMF). The setting came about through a series of UN-led conferences in the 1990s focusing on issues such as children, nutrition, human rights, women and others. The OECD criticized major donors for reducing their levels of Official Development Assistance (ODA). With the onset of the UN's 50th anniversary, then UN Secretary General Kofi Annan saw the need to address the range of development issues. This led to his report titled, “We the Peoples: The Role of the United Nations in the 21st Century” which led to the Millennium Declaration. By this time, the OECD had already formed its International Development Goals (IDGs) and it was combined with the UN's efforts in the World Bank's 2001 meeting to form the following Millennium Development Goals.<sup>17</sup>

*Goal 1: Eradicate extreme poverty and hunger*

*Goal 2: Achieve universal primary education*

*Goal 3: Promote gender equality and empower women*

*Goal 4: Reduce child mortality rates*

*Goal 5: Improve maternal health*

*Goal 6: Combat HIV/AIDS, malaria, and other diseases*

*Goal 8: Develop a global partnership for development*

There is a debate surrounding the MDGs. Supporters of the MDGs argue to help the human development by providing a measurement of human development that is not based solely on

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<sup>15</sup> MDG Report, 2010

<sup>16</sup> Kabeer, 2010

<sup>17</sup> Hulme, Scott, 2010

income, prioritizing interventions, establishing obtainable objectives with operationalized measurements of progress and increasing the developed world's involvement in worldwide poverty reduction.<sup>18</sup> The measurement of human development in the MDGs goes beyond income, and even just basic health and education, to include gender and reproductive rights, environmental sustainability and spread of technology.<sup>19</sup> Prioritizing interventions helps developing countries with limited resources make decisions about where to allocate their resources through which public policies. The MDGs also strengthen the commitment of developed countries to helping developing countries, and encourage the flow of aid and information sharing.<sup>20</sup> The joint responsibility of developing and developed nations for achieving the MDGs increases the likelihood of their success.<sup>21</sup> The critiques say that the MDGs leave out important ideals, such as the lack of strong objectives and indicators for equality, which is considered by many scholars to be a major flaw of the MDGs due to the disparities of progress towards poverty reduction between groups within nations.<sup>22</sup> Another criticism of the MDGs is the difficulty or lack of measurements for some of the goals. It is said that goals related to maternal mortality, malaria, and tuberculosis are in practice impossible to measure and that current UN estimates do not have scientifically validity or are missing.<sup>23</sup>

### **MDG 1 implementation of Armenian side (PRSP, SDP)**

After signing the Millennium Declaration and committing itself to the realization of MDGs in 2000, the Government of the RoA, civil society approved the Poverty Reduction Strategy Paper (PRSP-1) in August 2003 for the 2003-2015 period. So far as it could be ascertained there was no

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<sup>18</sup> [http://www.mdgmonitor.org/country\\_progress.cfm?c=BRA&cd](http://www.mdgmonitor.org/country_progress.cfm?c=BRA&cd)

<sup>19</sup> Deneulin, Séverine, Shahani, 2009

<sup>20</sup> *ibid*

<sup>21</sup> Haines, Cassels, 2004

<sup>22</sup> Kabeer, 2010

<sup>23</sup> McArthur, Sachs, 2005

single document that can be called as the Government’s plan or an overall policy document. To ensure the implementation of the strategy, the Government adopted a Medium-Term Public Expenditure Framework (MTEF) for the first period of PRSP from 2004 to 2006 and relevant ministries and state agencies have developed comprehensive action plans based on PRSP strategies and goals. The Government aimed to use PRSP as a framework for coordinating the contributions and activities of bilateral and multilateral donors.

PRSP aimed at generating high rates of economic growth and redistributing this growth to social programs for the poorest and most socially disadvantaged. By implementing the PRSP, the Government aimed to establish a sound foundation for eradicating mass poverty and improving living standards by 2015 in accordance with the Millennium Development Goals (MDG).

Being the first long-term strategic program after independence the PRSP is aimed at social and economic development of the country. It contains almost all goals and targets and is fully consistent with the time horizon of MDGs.<sup>24</sup> MDG 1 both in national and MDGs framework is presented below.<sup>25</sup>

Millennium Declaration		National MDG Framework	
	<i>Target 1. Halve between 1990 and 2015, the proportion of people whose income is less than one US dollar a day.</i>		<i>Target 1. In 2015 have poverty level lower than in 1990</i>
1a	Proportion of population below 1\$ per day	1	Proportion of population below 4.30\$ per day
1b	Proportion of population below national level of poverty line	2	GDP per capita compared to the EU average
2	Poverty gap ratio	3	Family allowance budget expenditure to poverty gap ratio
3	Share of poorest quintile in national consumption	4	Income of the poorest quintile to the income of the richest quintile Ratio of poverty level outside Yerevan to

<sup>24</sup> Jrbashyan, 2005

<sup>25</sup> MDG Report, 2005

		5	poverty level in Yerevan
	<i>Target 2. Halve between 1990 and 2015 the proportion of people who suffer from hunger</i>		<i>Target 2. Halve between 1990 and 2015 the proportion of people who suffer from hunger</i>
4	Prevalence of underweight children under 5 years of age	6	Prevalence of underweight children under 5 years of age
5	Proportion of population below minimum level of dietary energy consumption	7	Proportion of population below minimum level of dietary energy consumption

Source: MDG Report, 2005

The main objective of the program is substantial reduction of material poverty. According to the program, it intends to get the poverty incidence to 19.7% by 2015 and the extreme poverty incidence to 4.1% as compared with 50.9% and 16%<sup>26</sup> in 2001, respectively. Together with the reduction of material poverty PRSP aims at reducing the high level of income inequality in the country from 53.5% in 2001 to 44.6% in 2015. The necessity to reduce human poverty, or in other words, sustainable human development was recognized as the second key objective of PRSP-1. With regards to human poverty reduction the program was aimed at improvement of the population health, reproduction potential and welfare level, including increase of the accessibility level of education and health service, etc. because these aspects relate to poverty in general. In order to achieve the above mentioned objectives, the poverty reduction strategy was composed of three major directions: a) ensuring a rapid and sustainable economic growth; b) implementing an active and targeted social and income policy focused on the vulnerable social groups (including the poor and extremely poor); c) modernizing the country's government system, including improvement of the public governance system and provision of expansion of resource package at the disposal of the country. With the goal of poverty reduction the PRSP focused on the promotion of self-employment and entrepreneurship by means of improving the

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<sup>26</sup> According to the poverty assessment methodology used during the program development.

business and investment climate, as well as increase of lending resources and cost reduction in the conditions of macroeconomic stability and liberal economic system, construction and reconstruction of the rural roads, modernization of the irrigation system and implementation of the drinking water projects, school reconstruction and modernization. In social support area it aims at better targeting family benefits and highest possible involvement of the poorest population in the system, in social insurance area increase of the efficiency; transfer of payment of non-insurance pensions to the state budget and increase of the pension sizes so that they might surpass the overall poverty threshold. In the area of income policy it aims at giving a priority to primary incomes, in particular ensuring progressive salary growth for the lower-paid salaried employees working in the budgetary and social infrastructure sectors. The key priority underlying the human development and the human poverty reduction policy is the progressive development of the major social services, in particular education and health, which may be ensured through the increase of their efficiency and accessibility. The next priority of PRSP is to improve the efficiency of public governance at all levels, including the development and consistent implementation of anti-corruption strategy; increase of public participation in the decision making process through enhanced public awareness, development of social partnership, social inclusion and social participation.<sup>27</sup>

If to look and compare the poverty level and overall statistics of the time when PRSP was created and the time when it was already changed to Sustainable Development Program, the action of PRSP can be considered as more than a successful one, because the overall statistics of poverty reduction was higher for 2006 than it was planned afterwards by PRSP.

**Table 2.** *Main Results of PRSP-1 Implementation, 2006*

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<sup>27</sup> PRSP, 2003

Indicators	2006	
	PRSP-1	Actual
<b>Economic sector and welfare level</b>		
GDP, billion drams	1918.4	2657.1
GDP, per capita, thousand drams	595.0	824.9
GDP, million US dollars	3239.4	6386.7
GDP, per capita, US dollars	1004.8	1982.8
Average monthly salary, thousand drams	38.3	64.3
Average monthly pension, thousand drams	10.1	11.5
Average monthly benefit, thousand drams	4.4	3.8
Economic growth ( 2003-2006), %, average annual	6.2	12.9
Inflation ( 2003-2006) %, annual average	3.0	4.7
Exchange rate (1000 drams/1 US dollar	1.7	2.4
<b>Poverty and inequality</b>		
Number of poor, % of population*	41.0	34.5
Number of extreme poor, % of population *	14.2	5.5
Gini coefficient of income concentration,%*	0.491	0.397
<b>Human development</b>		
Infant mortality rate (per 1000 live-born)	14.4	13.9
Maternal mortality rate (per 100000 live-born)	22	22.4
<b>Consolidated budget operations</b>	1918.4	2657.1
Total revenues and grants, billion drams	595.0	824.9
Total revenues and grants, % of GDP	3239.4	6386.7
Total expenditures, billion drams	1004.8	1982.8
Total expenditures, % of GDP	38.3	64.3
Residual (addition), % of GDP	10.1	11.5
<b>Social expenditures</b>	4.4	3.8
Total, billion drams	6.2	12.9
% of GDP	3.0	4.7
<b>of which</b>	1.7	2.4
Education and science, billion drams		
% of GDP	41.0	34.5
Health, billion drams	14.2	5.5
% of GDP	0.491	0.397

Social protection and insurance, billion drams		
% of GDP	14.4	13.9

*Source: Concept for Sustainable Development, 2008*

As the table shows, the actual indicators of the material poverty and inequality are significantly lower than those envisaged in PRSP-1. According to MDG report 2010, the proportion of the population living below the national poverty line decreased more than two-fold from 1999-2008, from 56.1% to 23.5%. The proportion of population below the minimum level of dietary energy consumption decreased more sharply-6.8 times during the same period. In 2008, only 3.1% of the population was below the national poverty food line, while in 1999 this figure was 21%. In accordance with these positive trends, the proportion of the population below 4.30 USD per day declined by 1.7 times (by 40.4%) from 1999 to 2008. The average per capita GDP year-on-year growth rate in 2004-2008 was estimated at 14.6% in Armenia, which was much higher than the EU-27 average growth rate. Such a reduction of poverty and inequality was mainly conditioned by the rapid economic growth of recent years, the actual rate of which in 2003-2006 more than twice surpassed the PRSP-1 forecasts. The rapid economic growth is the major reason for the unprecedented growth of the salaries inflation considered (in 2006 the actual average salary was 68% higher than that envisaged in PRSP-1), which in its turn became the major factor for poverty reduction. At the same time as a result of dram appraisal since 2003 up to the present, which is mostly conditioned by the impact of external factor on Armenia and which was impossible to envisage within the PRSP-1 framework, in 2006 the nominal GDP (in US dollar) and per capita GDP are almost twice more than those envisaged in PRSP-1. Due to social

transfers, the poverty rate in the country was reduced on average by 8.7 and extreme poverty rate by 9.3, percentage points during 2004-2007.<sup>28</sup>

	1999	2004	2005	2006	2007	2008
	Poverty incidence rate (poor population), %					
Yerevan, the capital	58.4	29.2	23.9	21.0	20.0	19.7
Other (medium and small) towns	65.5	43.9	37.8	35.8	29.8	28.3
Rural areas	48.2	31.7	28.3	23.4	25.5	22.9
<b>Armenia, Total</b>	<b>56.1</b>	<b>34.6</b>	<b>29.8</b>	<b>26.5</b>	<b>25.0</b>	<b>23.5</b>
<i>Including: Population below the minimum level of dietary energy consumption, %</i>						
Yerevan, the capital	24.8	6.1	3.6	3.5	3.2	3.2
Other (medium and small) towns	27.4	9.2	7.2	6.6	6.1	4.6
Rural areas	14.1	4.4	3.2	2.4	2.3	1.7
<b>Armenia, Total</b>	<b>21.0</b>	<b>6.4</b>	<b>4.6</b>	<b>4.1</b>	<b>3.8</b>	<b>3.2</b>

In the pre-crisis national short and long-term policies it was envisaged to reduce the shares of the poor population to 10.1%, the population below minimum level of dietary energy consumption to 1.6% and the proportion of population below the 4.30 USD per day to 11% in 2015. These projections were based on the robust economic growth during the recent pre-crisis period and on

<sup>28</sup> MDG Report, 2010

the implementation of policies ensuring the significant expansion of public expenditure in the social sphere.<sup>29</sup> Looking at the changes and developments till 2007-2008 when the economic growth was happening faster than foreseen by the PRSP, one could project a similar positive trend for 2015. However, given the current economic situation and challenges in the country such expectation may not be overcome.

<b>Target 1</b>												
<b>By 2015, Reduce the Poverty Level to Lower than in 1990</b>												
<b>INDICATORS</b>		<b>1999</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2015 (pre-crisis projections)</b>	<b>2015 (new estimates; baseline scenario)</b>	<b>Target value in 2015</b>	<b>Will the target value be achieved by 2015?</b>	<b>State of supportive environment</b>
1	Proportion of population below 4.30 USD (PPP adjusted) per day, %	80.0	73.4	62.6	52.0	46.9	47.7	11.0	21.9	<20	***	S
2	GDP per capita compared to EU average per capita, %	...	13.0	14.7	16.3	18.0	18.8	35.0	19.9	>30	*	S
3	Family allowance budget expenditure to poverty gap ratio, %	33.0	18.3	24.5	34.3	...	...	80.0	71.0	>50	***	S
4	Income in the poorest quintile to the income of the richest quintile	1/32	1/11	1/10	1/8	1/8	1/8	1/9	1/9	>1/5	*	G
5	Ratio of poverty level outside capital to poverty level in capital	...	1.5	1.6	1.7	1.5	1.4	1.9	1.5	<1.2	*	G

<sup>29</sup> *ibid*

Target 2												
Halve, between 1990 and 2015, the Proportion of People who Suffer from Hunger												
INDICATORS		1999	2004	2005	2006	2007	2008	2015 (pre-crisis projections)	2015 (new estimates; baseline scenario)	Target value in 2015	Will the target value be achieved by 2015?	State of supportive environment
6	Prevalence of underweight children under five years of age, %	2.6 (2000)	...	4.0	...	...	...	1.9	1.9	<1.4	*	S
7	Proportion of population below minimum level of dietary energy consumption, %	21.0	6.4	4.6	4.1	3.8	3.1	1.6	2.3	<2	**	S

Source: MDG Report, 2010

\* Unlikely to achieve

\*\* Hard to achieve

\*\*\* Likely to achieve

\*\*\*\* Easy to achieve

... No data/Not applicable

In 2008, the Sustainable Development Program, a revised PRSP was adopted. The economic priorities of PRSP-1, which were connected with economic growth, and poverty reduction, will remain priorities also for PRSP 2. At the same time the following will be regarded as PRSP-2 economic policy priorities:

- *Targeted territorial policy with the aim of lessening the territorial development disproportions;*
- *Intensive policy of the “second” generation reforms<sup>30</sup> – to ensure the modernization of the country and the nearest approach to the standards of the developed countries;*

<sup>30</sup> The term 'second generation reform' is being increasingly used in India by ministers, mandarins and the media to refer to a general continuation of the process of economic reform and liberalization initiated by the Centre at the behest of the International Monetary Fund in the early 1990s. The concept of second generation reform was evolved by the IMF to insulate developing countries from marginalization in the wake of globalization. According to the fund, globalization would not only enhance the benefits of sound economic policy but also acerbate the costs of

- *Policy aimed at ensuring free economic competition and monopoly limitation - to create and maintain equal conditions for all those involved in economic activities;*
- *Policy aimed at the increase of the country's competitiveness, the major characteristics of which are promotion of output growth, ensuring of competitive levels of unit labor force value promotion of new, higher value added forming jobs;*
- *Export promotion and increase of the country's involvement into the global economic system, including intensification of EU integration process within the ENP, including the establishment of free trade regime with EU and unilateral elimination of visa regime;*
- *Intensive adaptation of the country's economic institutions and legislation to the EU requirements and standards;*

There is a justification why the PRSP was changed to SDP. According to the Concept for Sustainable Development, economic growth rates in 2003-2006 as well as the growth of public expenditure capacities have lead to a situation that in medium and long-term perspective PRSP-1 targets and the values of the major indicators will be substantially surpassed, which steeply reduces the degree of PRSP-1 as being real. A number of other factors force the need of developing PRSP-2. These factors are conditioned by the need for the development of new and higher targets for the reduction of the material poverty and elimination of extreme poverty, and a more precisely defined public policy. Besides, the economic growth of the country in the long-term perspective, as well as the degree of the country's modernization and increase of the institutional capacities will be greatly conditioned by the successful execution of so called "second generation" of reforms.

According to SDP document, one of the major differences between PRSP-2 and PRSP-1 is the steep expansion of the policy measures aimed to ensure the lasting economic growth,

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bad policy(<http://www.thehindubusinessline.in>) In order to sustain its robust economic growth, Armenia needs to embark on "second generation reforms" that would result in better governance, fair competition and more developed financial services(<http://www.armtown.com>)

which is necessary to consider the newly emerged challenges and circumstances in the public policy. The Government finds that issues like fostering economic competition and limiting the existing monopolies, increasing the country's involvement into the global economy, promoting the export, ensuring the country's institutional capacity growth, modernizing the economic, social and administrative institutions, creating the basis and developing a new, knowledge-based economy, etc. should be reflected in the new PRSP. Although it may be assumed that the problem of extreme poverty due to PRSP1 is mostly solved, however, poverty still remains a serious social issue, which is able to endanger the social stability of the country. Therefore, poverty reduction, including the elimination of extreme poverty, continues to remain the key objective of PRSP-2. The latter envisages to get material poverty level to 8% in 2012 thus mostly overcoming it and bringing the level of extreme poverty to 1.2%, thus practically eliminating it.<sup>31</sup> Nevertheless, according to National Statistical Service, the number of poor citizens in the country amount to about 1.2 million people (35.8%) of the population in 2010 (National Statistical Service of RoA). Actually this means that every third citizen of the country lives below the poverty line, and 40% of children are vulnerable. NSS also reports that the tempo of growth of extreme poverty rate in Armenia has speeded up nowadays ranging to 3% compared to 1.6% in 2008.<sup>32</sup> Thus, PRSP-2 was not able to help realize the goal of practically eliminating extreme poverty and, why not, overall poverty for the year of 2012.

Another strategic priority of PRSP-2 with the aim of MDG 1 implementation is the increase of public governance efficiency at all the levels of governance, which is also connected to poverty both as a cause and an effect. To promote governance efficiency a consistent implementation of anti-corruption strategy is important. This, in turn will lead to poverty

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<sup>31</sup> Concept for Sustainable Development, 2008

<sup>32</sup> [www.armenpress.am](http://www.armenpress.am)

reduction. According to PRSP-2, the share of poor population in Yerevan will be respectively 8.7% in 2012, 5.4% in 2015, and 3.2% in 2021 instead of 19.6% in 2006 and poverty will stop being a dramatic social issue already starting from 2015. The major factors conditioning such poverty reduction will be the progressive growth of the poor population's labor incomes and employment level, as well as the progressive growth of the pensions and increase of purposefulness of the benefit system. The reforms will first of all concern regulation of monopolies and ensuring competition, improvement of public governance, and business and investment climate. The framework of reforms, which during 2008-2021 are meant to contribute to the substantial improvement of business environment, relates to a number of state regulation areas of economy including legislative, procedural and administrative areas. According to SDP document, in the medium and long term perspective the present incomplete and weak system of the competition protection can be one of the obstacles of the country's development and pro-poor economic growth.<sup>33</sup> SDP didn't work as financial crisis coincided with its start of implementation becoming an obstacle on the way.

The successful activity of SMEs in Armenia is considered to be one of the most important means of poverty reduction. Through supporting SMEs employment opportunities are developed for people, which in turn promote the shortening of the poor in the society. The Government of Armenia continues to support SMEs, as they play an important role in creating new workplaces, forming the middle class in the society. To support SMEs, in July 2000 Government issued the decree on "Concept for SME Development Policy and Strategy in Armenia", and in December 2000 enacted the law on "State support of small and medium entrepreneurship". In 2002, the Government established the "Small and Medium

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<sup>33</sup> Concept for Sustainable Development, 2008

Entrepreneurship Development National Center of Armenia" (SME DNC) to promote SMEs. There are also state projects on the development of SMEs, which coincide with the directions of the law on "State support of SMEs", but they don't have a key format, which complicate the further analysis of the projects.

In 2008 "2008-2012 project of the Government of RoA" was adopted to promote socio-economic development of the country. The growth of employment rate is a typical measure to reduce poverty. The aim is to create new workplaces, enhance competitiveness of employment opportunities, make amendments in the sphere of pensions, etc. In 2006, a law on "Social protection of population in the case of unemployment" was adopted, the aim of which was to encourage employment and implement a fear policy of social protection in the case of unemployment. The Family Benefit System (FBS) is one of the biggest social protection programs in the country. However, it remains insufficient to bring the average consumption of very poor households up to the food poverty line level.<sup>34</sup>

There are also laws on "State subsidies", "Social assistance" adopted by the government to support the poor of the country and promote human development. The program of family subsidies is the most socially sonorous one. These subsidies are given to poor families who are under the poverty line "as determined" by the government. There are subsidies also for children, elderly, and invalid people. A dynamic growth was noticed in average month wages: in general compared to 2002, in 2011 the average month wages grew for 4.4 times.

In the sphere of industry, in 2011, a strategy on "Industrial policy towards the exports of the RoA" was adopted by the government, the central goal of which is to promote the formation of new entrepreneurs, modernization of the business environment and the spheres, having export potential. It is planned to provide the implementation of strategies in pharmaceutical and

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<sup>34</sup>Draft document of Armenia for Rio+20 Conference.

biotechnological spheres, as well as in the sphere of cognac production. Amendments in industrial sector are important in the sense that the production later bringing to export promotion has a very big impact on the economy of the country.<sup>35</sup>

Another sector linked to poverty is agriculture. The state policies towards agricultural development of the republic are directed at rural development, poverty reduction in rural areas, environmental protection. Due to state policies, improvement is witnessed in the sphere. A considerable achievement in agriculture is the establishment of cooperation with international organizations, like World Trade Organization (WTO), UN'S Food and Agriculture Organization, etc. Nevertheless, there are some factors like small rural economies, productive use of land resources, invalid agricultural equipments (more than 95% of agricultural equipments are out of date) that still hamper agricultural development. Besides, agriculture as a risky sphere renders huge losses every year because of climate change. "Strategy of sustainable development of agriculture and villages for 2010-2020" was adopted in 2010 by the government. The "Concept of food security of the RoA" by the president was adopted in 2011. With financial assistance from Japanese Government through the UN Human Security Trust Fund (UNHSTF), UNIDO, another agency of the UN, supports the empowerment of poor and vulnerable rural households in Geghamasar, Pambak, Kashakh communities of Gegharkunik and Aragatsotn marzes, by promoting their participation in economic and community life. Specifically, efforts are made to ensure that 200 start-up entrepreneurs are trained in target and neighboring communities on entrepreneurship and business management, supported to develop business plans and have access to lending sources.

Steps were taken in the sphere of environmental protection by the government, too. "National project-2 on environmental protection" was adopted in 2008. Another law "National

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<sup>35</sup> ibid

project of forest of the RoA” on environmental protection was adopted in 2005, which promotes the enhancement of the social, economic and environmental role of forests. “Clean country” national project was established in August, 2010 by the government of Armenia directed at cleaning of environment. “Motor Action Plan to reduce emissions of harmful substances of motor means” was adopted to draw the attention of the corresponding bodies to the issue.<sup>36</sup> Though environmental protection is not linked to poverty reduction from economic side, it is directed at country and human development in general. Besides, proper usage of forests and other environmental resources is a precondition of avoiding further deterioration of both social and economic condition of the country.

Being the second MDG, however, education is linked to poverty as well. SDP also has its plans and priorities in regard to education enhancement. Several laws and strategies were adopted to improve the educational environment in the country. In 2008, the Government of Armenia developed the “Strategic project of pre-school amendments of 2008-2015” aiming to increase the amount of children in pre-school system up to 90% by 2015. In 2001, “The state project of providing educational development of 2001-2005” became a law, which was directed at the development of educational system as an important precondition for socio-economic progress of the country. In 2010, “The state project of educational development of 2010-2015” was adopted by National Assembly of the RoA to promote educational amendments and development. Armenia adopts UN’s “Education for sustainable development” strategy as a basis in its improvement policy in the sphere. UNESCO’s chair of “Education for sustainable development” was set in Armenia in order to support educational development.

Steps were taken also in the sphere of health care. The trends directed at improvements in health care system correspond to the provisions of “Health 2020” political document, adopted by

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<sup>36</sup> ibid

the World Health Organization (WHO). However, according to the Armenian Draft to Rio+20, the studies in the sphere of “Environment and Health Care” are limited. The availability of health services for the poor is not clarified, which in turn can bring to serious problems. In 2011, laws were adopted by the National Assembly of RA to amend several laws, like “About local self-governance”, “About town construction”. Laws on “Code of Administrative Offences of the Republic of Armenia on Making Amendments and Additions”, “About State Tax”, “Land Code of the Republic of Armenia on Making Amendments and Additions”, etc. were adopted. Due to the Ministry of Urban Development, during 2003-2012 405 construction objects were put into operation, including 11 administrative, 271 education, 63 cultural, 28 sports, 19 for health care and 12 for housing. To support poverty reduction in the country some institutions were created. The Business Support Council was created, chaired by the prime-minister, to support entrepreneurship and investment promotion and elimination of administrative barriers.

Corruption is closely linked to inequalities creating a deep gap between the rich and the poor in the country. Poverty and corruption are linked to each other by cause and effect relationship. Poverty reduction will bring to reduction in corruption as well. An Anti-corruption Council was created in 2004, chaired by the president to eliminate the causes of the emergence and spread of corruption. The Anti-Corruption Strategy Monitoring Commission was also created chaired by the assistant of the president. The Republic of Armenia has closely cooperates with the Council of Europe GRECO-Group in the fight against corruption.<sup>37</sup>

Though there is some progress in the implementation of the SDP in separate sub-projects the results are not sufficient because the level of poverty, unemployment and migration have increased from 2008 till nowadays. The SDP aimed at reducing high level of income inequality, but legislative changes have not yet brought the desired results in practice, and the polarization

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<sup>37</sup> *ibid*

of the society is deepening. Economic growth has not transformed into human development yet. The quality of life of the rural population has worsened. 40% of land in the country is not being cultivated because of the tax-credit economy, absence of appropriate equipment which leads to inefficient agricultural activities. Small hydroelectric power plants are being built. Often these plants are being built in areas of vulnerable ecosystems which can lead to forest degradation, natural disasters and overall poverty years later. Small hydroelectric power plants affect the opportunities of local population toward the sustainable use of natural resources and irrigation water. All this can lead to social and economic tensions.<sup>38</sup>

Year	Law	Other	Project	By
2000	"State support of small and medium entrepreneurship"	"Concept for SME Development Policy and Strategy in Armenia"		
2001	"State project of educational development of 2001-2005"			
2005	"National project of forest of the RoA"			
2006	"Social protection of population in the case of unemployment"			
2008			"2008-2012 project of the Government of RoA", "National project-2 on environmental protection", "Strategic project of pre-school amendments of 2008-2015"	Government
2010		"Strategy of sustainable development of agriculture and villages for 2010-2020"	"Motor Action Plan to reduce emissions of harmful substances of motor means", "Clean country"	Government
2010	"State project of educational development of 2010-2015"			National

<sup>38</sup> *ibid*

				Assembly
2011		“Concept of food security of the RoA” , “Industrial policy towards the exports of the RoA”		President
2011	“About local self-governance”, “About town construction”, “Code of Administrative Offences of the Republic of Armenia on Making Amendments and Additions”, “About State Tax”, “Land Code of the Republic of Armenia on Making Amendments and Additions”			National Assembly
	“State subsidies” “Social assistance”			National Assembly

*Source: Rio+20 document (draft)*

### **UN as MDG implementing party in Armenia**

In 2005 the United Nations launched its first concerted effort to assist Armenia. This effort brought together several UN specialized agencies as well as multilateral and bilateral aid organizations, the Breton Woods institutions, the Government and Civil Society Organizations (CSOs) in a cooperative and organized manner to provide assistance to Armenia. The result was the first United Nations Development Assistance Framework (UNDAF) for the period of 2005-2009.

UNDAF rests on four pillars:

- Reduction in the levels of poverty and income inequality.
- Improvement in the quality and accessibility of social services.
- Improvement in the transparency and accountability of Government institutions.
- Promoting environmentally sound technologies and effective management of natural resources.

The pillars are not selected haphazardly, but are the logical deductions from the MDG principles and from the PRSP. It is expected that the realization of the objectives of the four pillars would contribute to the overall goal of reducing economic, social and political inequality, enhance good governance and improve environmental management.<sup>39</sup> According to UNDAF 2005-2009, there are noticeable positive changes in reducing poverty and human development. It aimed to establish economic equity through reducing the levels of poverty and income inequality in accordance with the MDGs and PRSP, social equity through improving the quality and accessibility of basic social services in accordance with the MDGs and PRSP, democratic governance through improving the transparency and accountability of Government institutions in accordance with the MDGs and PRSP, and to promote environmental governance, through promotion of environmentally sound technologies and effective management of natural resources in accordance with the MDGs and PRSP. The results for above mentioned 4 pillars are the following:

- Regional and Community development strategies and Government budgets are based on the principles of socially oriented and equitable economic growth;
- Access to high quality maternal and child health services is increased, particularly for the poor and socially disadvantaged;
- National Assembly councils and commissions and the Chamber of Control function effectively;
- Government growth strategies and plans are based on the principles of sustainable development.

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<sup>39</sup> United Nations Development Assistance Framework 2005-2009 Armenia., 2005

The listed outcomes were concluded through evaluating the percentage fluctuations of different aspects of the above mentioned 4 goals based on the data of NSS of Armenia, Official Bulletin of RA, Network Systems Management Services (NSMS) data, Multilocus Sequence Analysis (MLSA) data, UNHCR data various reports and publications like MDG reports, MNP reports, Constitutional Court protocols, etc. According to UNDAF (2005-2009), budgets of UN Agencies for the period 2005-2009 amount to some US \$75,238,440. There is a critique about the relevance of UNDAF, according to which *Common Country Assessment*, usually prepared by the United Nations, was not used in the preparation of UNDAF. It relied mostly on the Government's PRSP document. According to PRSP, reduction in poverty and inequality is one of the major goals. This reduction has several ramifications, which are articulated in the Document. These are: expansion of economic activities better health, welfare, and education; better governance; efficient public administration; and better utilization of natural resources. Each and every one of these objectives and the policy measures to achieve these objectives are articulated in the Document. Hence, the Report expresses the opinion that the expected outcomes and impacts certainly reflect the priorities of the Government and the overall mandate of UNDAF. Efficiency can be measured in a variety of ways. One method would be to estimate the proportion of the resources that the UN allots to a set of outcomes to their administrative costs. Another method is to compare the extent of UN's contribution to the outcomes and impacts with that of its partners. Overall, the administration costs varied during the years between 2005 and 2007. In 2008 it is expected to be about 14%. There is no hard and fast rule as to what the administrative cost should be with respect to total outlays. Administrative costs vary with prices and salary levels in a country. During the UNDAF period UN underwrote 31.5 % of the cost of the projects that composed UNDAF, while the bilateral and multilateral donors financed 68.5%

of the outlays. Considering that UN had to respond quickly to the Government's growing needs and priorities and mobilized funds that are twice as high as core funds one can surmise that the efficiency of UN must have played an important role in resource mobilization. Nevertheless, there is no comparative data to make a fair judgment. Nor does UN's accounting system allow such a comparison. However, given the outputs and their qualities and the reasonably modest sums allocated to them, one can assume that the UN Country Office was effective. It is important in this context to mention some multilateral and bilateral partners of the UN agencies. The EU is the most important multilateral donor. Norway, Italy and USAID are among the top ones. In addition, the contributions made by the Government of Armenia and the private sector should also be mentioned.<sup>40</sup>

#### **New trends of UN to reduce poverty**

However, Armenia has achieved remarkable development during the 8 years since the year of adopting MDGs. The market-oriented reforms shaped in Armenia after the collapse of Soviet Union, combined with a very positive external environment in the 2000s led to considerable improvements in the socio-economic sphere with poverty rates falling from 56% in 1999 to around 25% percent in 2007. As a result GDP per capita reached USD 3,000 by 2007, which elevated Armenia's status from a low to middle-income country. Despite these positive changes, further reduction in poverty rates will be a major challenge for Armenia as unequal economic opportunities differences in regional development and evidence of the growing severity, and depth of poverty were still evident in the country. The employment to population ratio, which indicates the ability of the economy to create jobs in the country, decreased largely during the period from 1999 to 2007 and comprised 42.7% in 2007. That is, only less than a half of the working-age population was employed and a large share of the country's productive

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<sup>40</sup> ibid

potential remained unused for desirable or undesirable reasons. The employment to population ratio was especially low among women. It comprised 38.8% in 2007, which was 14.5% lower than among men. There is also a problem of high youth unemployment rates in the country. The youth (15-24 years old) employment to population ratio was also low - around 19%. Employment in Armenia is an important factor for lowering the poverty risk.<sup>41</sup> So, poverty still remains a high concern for both Armenia and the international community.

With the aim of poverty reduction, economic growth and, finally, implementation of the MDGs, the UN country team devoted itself to composing new projects and programs for the remaining 5 years until the deadline. United Nations Development Program entered into a basic agreement “Standard Basic Assistance Agreement” to govern UNDP’s assistance to Armenia as early as in 1995. In 2005 UNDP’s Executive Board approved the new Financial Regulations and Rules and with that new definitions of execution and implementation of its action in the country. A new project under the name of the Country Program Action Plan was developed. This new country program action plan (CPAP) is providing a new direction for implementing MDGs and promoting the overall country development for 2010-2015. UNDP’s partners for this CPAP include the Government of RoA, regional administrations, local self-governing communities, the UN country team, multilateral and bilateral donors, civil society, global funds, and Diaspora organizations. It will cooperate also with, SDP Steering Committee and Working Group (which are SDP’s main acting bodies), the UNDAF Steering Committee and thematic groups, Donor Theme Groups, International Working Groups, Public-Private Partnership Working Group. The priorities of CPAP will be to expand support to SMEs, build a knowledge economy, increase access of vulnerable groups to economic opportunities, assist to strengthen national systems of

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<sup>41</sup> MDG Report, 2010

data collection support VET programs, strengthen mechanisms to respond to the needs of vulnerable groups, etc.<sup>42</sup>

To promote poverty reduction and the general implementation of MDGs, the United Nations system in Armenia has developed the UN Development Assistance Framework for 2010-2015 in line with the main national development priorities outlined in the SDP. According to an expert from UNDP (12.06.12), UNDAF is the document through which the UN is dealing with MDGs in the country. UNCT, NGOs, and independent experts gather and discuss the further plans of reducing poverty, assess the last activities and conduct new action plans. In the UNDAF (2010-2015) the support will address four key areas: poverty reduction, democratic governance, basic social services, environmental management and disaster risk reduction. In September 2008, the Government, the UN and representatives from civil society organizations met to define the main priorities for the work of the UN in Armenia for 2010-2015, taking into account the UN's previous experience in the country, its mandate and comparative advantages. Participants agreed that the UN should focus on promoting more inclusive and sustainable growth, by reducing disparities and expanding economic and social opportunities for vulnerable groups; and strengthening democratic governance, by improving accountability, promoting institutional and capacity development, and expanding people's participation, in conformity with key national priorities. UNDAF was based on the following principles of implementation: all programs and projects will ensure national ownership and strengthen national capacities, programs will be implemented through a partnership involving the Government of Armenia, civil society and the UN agencies (a significant percentage of the funding the activities will be provided directly through UN system resources), the UN will actively seek partnerships among bilateral and multilateral donors to avoid duplication, enhance synergies, and mobilize additional resources.

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<sup>42</sup> CPAP, 2010

The Government which will be encouraged to provide direct support from the state budget and dedicate official development assistance into priority programs will play a leading role. The private sector and the Diaspora will also be encouraged to participate in the programs, including through public-private partnerships. To ensure that programs and projects are effectively implemented, an UNDAF monitoring and evaluation, UNDAF Outcome Groups and an UNDAF Steering Committee will be established to assess the strength and weaknesses as well as the results of their programs and projects. Sustainable and inclusive growth is the key priority for Armenia's medium and long-term development and is the main objective of the nationalized MDGs and SDP, which is the main development plan of the RoA. The results of the UNDAF will be achieved by 2015, in line with the deadline for the achievement of the global MDGs. To implement the UNDAF, the UN Agencies, Funds and Programs will prepare country programs, projects and activities consistent with the strategies outlined in this framework.<sup>43</sup> According to UNDAF (2010-2015) draft, the outcomes achieved by 2012 are the following:

- UNDAF Outcome 1: Inclusive and sustainable growth is promoted by reducing disparities and expanding economic and social opportunities for vulnerable groups.
- UNDAF Outcome 2: Democratic governance is strengthened by improving accountability, promoting institutional and capacity development and expanding people's participation
- UNDAF Outcome 3: Access and quality of social services is improved especially for vulnerable groups
- UNDAF Outcome 4: Environment and disaster risk reduction is integrated into national and local development frameworks<sup>44</sup>

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<sup>43</sup> UNDAF (2010-2015)

<sup>44</sup> *ibid*

UN practically has its own monitoring and evaluation system. According to an expert from UNDP (12.06.12), qualitative data was conducted which brought to the above mentioned outcomes. The outcomes show that much has been achieved by 2012, but as the data is qualitative and there is no data that shows the concrete amount of people improving their life conditions, it is hard to rely on the above mentioned statistics. Of course, the fact that outcomes are established as they are means that there is a level of improvement in above mentioned spheres, but being qualitative, the data doesn't give a proper image of changes. Besides, the interviews conducted to find out the reasons why MDG 1 is not likely to be achieved by 2015, show that the outcomes are not real enough. The second outcome is especially put under doubt. Experts not only from UN but also from other organizations dealing with poverty reduction separately from UN's MDGs talk about disparities, unfair elections, lack of democracy, corruption, etc. which, however, lead to various socio- economic problems hampering the process of poverty reduction.

From one side it can be concluded that either UN is not willing to work as it can or it is weak as an actor. Nevertheless, there is another point here to hold on: according to an expert from UNDP (23.05.12) Armenia doesn't allow the UN to intervene in the country's internal affairs. "It allows the UN to plant trees, but doesn't allow to have restrictions and control cutting of the trees". According to her, the failure is that of the Government. The expert brings the example of Georgia, where the president eradicated corruption which is an important factor in dealing with country's economic recovery and which has not been done in Armenia. Then to the question why Armenia hampers UN to implement its mission, one answer remains the lack of will, the other one lack of capacity. The latter is acceptable and perspicuous in the sense that the country

doesn't have enough resources to successfully reduce poverty. But the former one is obscure and unexplainable.

### **Projects by UNDP to reduce poverty**

With the aim of poverty reduction particular attention will be given to revitalizing SMEs and creating jobs and reducing disparities between regions and specific vulnerable groups and those between men and women. Considering the role and strategic importance of the SME sector for the country's economic development and the mandate, in September 2004 UNDP started to implement a joint project "Support to SME Development in Armenia". The main objective of the "Support to SME Development in Armenia" project is to support the implementation of the SME State Support Program and to improve business support services to small and medium enterprises at regional and local levels. The Project is implemented through following activities: improvement of knowledge and business skills of SMEs and development of sector specific program in one region, development of export opportunities for SMEs, providing information and promotional services to the SMEs at central and regional level, strengthening the capacity of SME DNC, which directly relate to the establishment of the new small and medium enterprises at local and regional levels, in its turn contributing to the increase of employment and business opportunities for the poor and socially disadvantaged, enhancing business and public skills and increasing participation in the economic development of the country. The main implementing partner for the Program component is SME DNC.

Fund for the program		
	USD	Total
SME DNC	188.521	323,521 USD
UNDP	135.000	

***Activity 1: Improvement of knowledge and business skills of SME's and development of sector specific program in one region:*** In the framework of this activity six programs were implemented in the marzes of Armenia, namely Aragatsotn, Armavir, Lori, Vayots Dzor, Gegharkunik and Syunik. The total number of the programs participants constitutes 123, 92 participants presented business plans, 17 successful participants of start-up business support programs have received loans from the Revolving Fund in 2011 in total amount of 30,6 mln AMD. The Revolving Fund to support the start-up business program participants in all marzes of Armenia was established in November 2006. Under the component of “Implementation of tourism development program in the regions” of this activity “Promotion of B&B cluster services for the development of local tourism market” program in Tavush, Lori and Vayots Dzor marzes of Armenia was implemented. As a result of B&B cluster development programs implementation in Tavush (2008), Lori (2009) and Vayots Dzor (2010) marzes 72 B&Bs are operating in 21 communities of the aforementioned marzes. About 42% of B&Bs are operating all year around.

***Activity 2: Development of export opportunities for SMEs***

In the framework of this activity program organization of export promotion activities for SMEs in pharmaceuticals sector was implemented. Representatives of pharmaceutical companies participated in the corresponding trade fairs. Under another component of this activity informational analytical material on SME development situation in Armenia was developed.

***Activity 3: Provide information and promotional services to the SMEs at central and regional level:*** In the framework of the PR campaign on the SME DNC of Armenia Fund, the development and broadcasting of information TV programs is planned to implement. These

programs are developed in order to keep SMEs informed on general developments in the sector. The TV programs are developed and broadcast two times a month on TV channel covering the whole territory of the country.

*Activity 4: Strengthening the capacity of the SME DNC*

In effect, the main objective of the SME DNC is to provide SMEs with information on the

development of SMEs and

O e Ta b

O e (OTOP) P g a g e c d g e a decade e a c a f e a c e f e OTOP c ce d be f g a e f e de g f dece a d effec e g a a a f f ca d e a d ca b a d A e a. T e

2012 a e a ed be e ec ed e e SME S a e S P g a 2012 g e f g ac e : e e f edge a d b e f SME , e e a f g a f OVOP e ec ed eg , f a e ce SME e eg , f f a a e ce e SME a ce a a d eg a e e , AWP e e a , g a d c d a .<sup>45</sup>

Though according to the draft report of Armenia for Rio+20, the programs directed at the development of SMEs by the international organizations had different impact on SMEs, either supporting or hampering their action, an expert from UN said that these programs have only positive effects on the SMEs and thus the economic development of the country.<sup>46</sup>

H e e , according to some experts from UNDP, (25.05.12) Avag Solutions (26.05.12), the

<sup>45</sup> www.undp.am

<sup>46</sup> Draft Document of Armenia for Rio+20 Conference

mechanisms encouraging the SMEs are still weak: there are objective and subjective factors that hamper the development of SMEs in general. Small and medium businesses are in an unequal condition of competitiveness with large businesses with regards to taxes. Micro-business has a special need of attention in the country.<sup>47</sup>

Another program by UNDP directed at poverty reduction in the framework of MDGs is “Community Development Project”. The overall objectives of CDP are to foster democratic governance, reduce poverty and regional disparities, contribute to sustainable, rural development through community-based projects that help the communities of Armenia to attain the MDGs, generate income for key vulnerable groups in the poorest and most disadvantaged communities. UNDP CDP is supporting the Government's Programs and initiatives aimed at supporting the Ministry of Territorial Administration in Strategic Policy Development and Decentralization; supporting citizens for meaningful participation in decision making and monitoring processes; reducing poverty through implementation of various income generating projects (provision of agricultural inputs and machinery, establishment of food micro-processing facilities, etc.); promoting cross border cooperation between the bordering regions of Armenia through encouraging and supporting trade and economic cooperation.

The total budget for the program constitutes USD 663,369 from which USD 663,369 by UNDP, USD 33,936 by RoA GVMT, USD 72,728 by Government of Italy, USD 96,300 by Government of Finland, USD 5,780 by CCF, USD 34,622 by UN HSTF, USD483 by RUSAL, USD 749 by MONARCH, USD 148 by OSI and USD 1,121 by MANES. The following activities were implemented:

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<sup>47</sup> [www.undp.am](http://www.undp.am)

Funds for the project						
	RoA GVMТ	UNDP	GVMТ of Italy	GVMТ of Finland	Others	Total
“Community Development Project”	33,936	417.500	72,728	96,300	2500	663,369

**Activity 1:** *Reviving Gyumri: Improving the living condition in the Old Town of Gyumri through tourism development.* The donors for this activity are the Government of Italy, UNDP and RoA Government. The works for reconstruction of the historical building into an Art Gallery are in progress. According to the Contract, the works should have been completed by the end of June 2011, however, implementation of construction works was delayed due to some objective reasons. The Ministry of Culture made some changes in the design, which demanded additional funding. The main donor Government of Italy didn't give their agreement with the proposal of the Ministry of Culture to change the purpose of the building, however, refusing to provide additional funding. The expected impact of the program was tourism and urban development through reviving the historical and cultural condition in the city of Gyumri and employment opportunities for the local population.

**Activity 2:** *“Every drop Matters, Adopt and Revive Aghstev River Basin”.* Donors for this activity are UNDP, USAID, Coca Cola and RoA Government. Several meetings with participation of UNDP, USAID, EBRD (European Bank for Reconstruction and Development) and State Committee of Water Systems (SCWS) were held to discuss the status of EBRD loan

and define the implementation arrangements for the project. As a result of the discussions it was agreed that the Technical Design for internal sewage network, main collector and wastewater treatment plant will be prepared by the consultant hired by EBRD. The construction works for internal sewage network, main collector and wastewater treatment plant will be implemented by EBRD. The SCWS suggested using EDM project funds (UNDP, Coca Cola, USAID, Government of Armenia and the Municipality of Dilijan) for procurement of equipment for the Wastewater Treatment Plant. The construction works will be initiated in 2012. Taking into consideration that the project activities will be implemented only after initiation of construction works by EBRD i.e. in 2012-2013 it was decided to reallocate the budgeted funds to 2012-2013. This was agreed upon with the donor organizations (USAID, Coca Cola, and Municipality of Dilijan). The expected impacts for this activity are improved environmental condition in Dilijan city, tourism development, increased public service delivery, employment opportunities for local population.

***Activity3:*** “*Reconstruction of potable water networks in Aygepar and Voskevan communities of Tavush Region*”. The donors of this activity are considered to be UNDP and CHF. UNDP signed Statement of Understanding with CHF for implementation of joint projects in Tavush Region. As a result of the assessments two projects were identified: reconstruction of potable water network in Aygepar community; reconstruction of potable water network for church district of Voskevan community. It was agreed that UNDP would procure and deliver PVC (premature ventricular contraction) potable water pipes, whereas CHF would organize the construction works. Following an open tender the UNDP subcontracted a specialized company for production and delivery of PE (polyethylene) potable water pipes. The pipes were delivered and handed over to the communities, the CHF organized construction works which were completed in September

2011. The current activity increased the living standards of the residents of Aygepar and Voskevan communities and provided employment opportunities for the local population.

**Activity 4: “Beautiful Dilijan Project”:** Donors are UNDP, Municipality of Dilijan, Izmirlyan Foundatoion. UNDP in cooperation with the Municipality of Dilijan and the “Izmirlyan Foundation” in 2010 initiated a project aimed at “Renovation of main facades and site development of surrounding area of 76, 78 and 84 buildings at Myasnikyan street, Dilijan city”. The construction works should have been completed in December 2010, however, the works were suspended due to unfavorable weather. The works were completed in June 2011. The activity aimed at tourism development and creation of employment opportunities for local population.

**Activity 5: “Beautiful Yerevan Project:** Donors for this project are UNDP and Municipality of Yerevan. The Municipality of Yerevan agreed to co-finance “Beautiful Yerevan” project aimed at regenerating of the urban environment in Yerevan and formulating and implementing more efficient social policies that will contribute to improved employability of disadvantaged groups. The initiative will pursue the rejuvenation of the heart of Yerevan through interventions in refurbishing and painting of buildings, repairing of streets and sidewalks, recuperating of green areas and repairing and renovation of urban furniture. The initial cost of the project was USD 500,000 which was subsequently increased up to USD 570,000 to include renovation of multi-apartment building entrances in Avan district. The Municipality of Yerevan contribution to the project is USD 285,000. The project was initiated in July 2011 and will be completed by the end of 2012. During 2011 the following activities were already completed renovation of Stepan Shahumyan’s monument pedestal; renovation of multi-apartment building entrances in Avan district; preparation of designs for renovation/cleaning of the five buildings facades.

**Activity6:** *Sustainable livelihood for socially vulnerable refugees, internally displaced and local families.* Donors are UN Human Security Trust Fund and RoA Government. This project was approved since March 2009. Within the framework of the project a major part of the activities was implemented by the end of 2010. In March-April 2011 the project distributed 6,000 fruit tree seedlings to Pambak, Daranak and Geghamasar communities. During the reporting period regular field visits were conducted to monitor the operation of the established Community Development Funds in Geghamasar and Pambak and to assess the sustainability of implemented projects. Due to this activity 700 vulnerable households will have improved skills for income generation activities and increased opportunities for start-up businesses, provision of high quality wheat seeds and fruit tree seedlings will result in increase of productivity by 30-40%, distribution of cows will result in increase of household income by 30%.

**Activity 7:** *Establishment of Cooperative Kitchen in Lusadzor community, Tavush Region:* Donors are UNDP and RoA Government. The renovation of cooperative kitchen building was completed in May 2011. The project was supported also by UNDP Energy Efficiency and VET projects which installed solar panels for hot water supply and organized specialized vocational trainings for bakery and dry fruit production. As a result of this activity the farm income of households increased by 15-20 %, production was made compliant with food safety norms, around 10 new jobs were created, healthcare improved and business skills were obtained.

**Activity 8:** *Construction of Irrigation Line for Establishment of Olive tree orchards in Bagratashen community, Tavush Region.* Donors are UNDP and WFP. UNDP and WFP are jointly implementing project aimed at reviving olive tree orchards in Bagratashen community, Tavush Region. The first stage of the project is construction of the irrigation line. It was agreed that UNDP will procure and deliver 1,3km of PVC irrigation pipes to Bagratashen community,

whereas WFP will organize laying of the pipeline through Food for Work scheme. Following an open tender the UNDP subcontracted a specialized company for production and delivery of PVC irrigation pipes. The pipes were delivered and handed over to the community, the construction works were implemented by the community through WFP FFW<sup>48</sup> program. The second stage of the project - arrangement of olive tree orchards is being implemented by the WFP. The results are as follows: 10ha olive tree orchards were established, around 40ha land were irrigated, the income of the beneficiaries was increased.

*Activity 9: Provision of greenhouses for the members of Aknaghbyur Agricultural Cooperative.*

Donors are UNDP and OXFAM GB Armenia. UNDP signed a Statement of Understanding with OXFAM GB Armenia for implementation of joint income generating projects in Tavush Region. Following the assessments done jointly with OXFAM experts a project for provision of greenhouses for the members of the Aknaghbyur Agricultural cooperative was identified. According to the agreement, UNDP had to construct greenhouses with polyethylene cover, whereas OXFAM had to provide drip irrigation, vegetable seedlings, bumblebee hives for natural pollination and trainings. The works were completed in November 2011. As a result of the activity, the annual income of the beneficiaries increased by 30%, employment opportunities were provided for the local population out of agricultural season.

*Activity 10: Aid for Trade for Central Asia, South Caucasus and Western CIS.* The donors for the activity are the Government of Finland and UNDP. The project was approved in 2011. The overall goal of the project is to support economic development through promotion of trade in the Tavush Region, which serves as a main corridor for Armenia for freight traffic to Russia and

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<sup>48</sup> Future Force Warrior is a United States military advanced technology demonstration project that is part of the Future Combat Systems project.<sup>[1]</sup> The FFW project seeks to create a lightweight, fully integrated infantryman combat system. It is a technology demonstration project in a series of network-centric, next-generation infantry combat projects the U.S. military have developed over the past decade, such as the Soldier Integrated Protective Ensemble technology demonstration program, Land Warrior, and Transformation of the United States Army ("Land Warrior". Army-technology.com)

other CIS countries as well as to Europe and Turkey through Georgia. The project was aimed at capacity building for trade mainstreaming and export promotion for public sector authorities, SME's, strengthening capacities of the Market Information Center for the provision of adequate customer services, etc. During the reporting period the following activities were performed:

- UNDP contracted “AM Partners” consulting company to perform “Study for identification of actual capacities and development opportunities of entrepreneurship and agricultural food production, and export promotion in Tavush Marz”.
- UNDP contracted “E-works” LLC to develop on-line marketplace web portal.
- UNDP contracted “MPG” LLC for delivery of the trainings for 75 participants (large farmers, SME's, etc.). All activities were completed in 2001.

*Activity 11: Analyzing Regional Disparities of Regions and Communities of Armenia:* The assignment was completed in April 2011.

The following activities were performed during 2011: regional development levels and economic potential assessment indicators were identified and substantiated; regional economic potential and development levels' assessment methodology was developed; analysis of 47 regions of the RA was carried out using the database created in the framework of the project “Community Development”. In the framework of the European Neighborhood Policy the Government of Armenia committed itself to elaborate a regional development concept and an action plan. Activities on updating the communities' database and capacity development for municipal servants were also implemented during 2011. All income generation sub-projects directly involve women's participation since the beneficiary farmers or households were either women or included women. Women's access to opportunities and services offered by CDP projects is ensured through the organization and encouraging equal participation of all community residents

in project prioritization, selection, as well as further implementation, i.e. registration in trainings, employment in workshops, and so on.<sup>49</sup>

The main implementation constrains that the project has faced are related to the building of wastewater treatment plant in the city of Dilijan and implementation of infrastructure rehabilitation projects. Those were delayed due the issues connected with receiving EBRD loan and because of unfavorable weather conditions. The future work plan for 2012 is the following:

- In case of availability of additional funding performing works for transformation of the Art gallery building in Gyumri into Library.
- Monitoring and supporting operation of the Cooperative Kitchen in Lusadzor.
- Implementation of the works for Aid for Trade project.
- Implementation of Beautiful Yerevan project (tenders, construction, and supervision).
- Continuing the works for updating of the communities database<sup>50</sup>

The UNDP contributes to poverty reduction in Armenia with one more project that is “Vocational Education and Training Project”. The main purpose of the VET Project is to achieve significant change with sustainable results and to raise youth employability by modernizing Vocational Education and Training System in Armenia as a proven way to reduce poverty and generate income. Modernization includes a whole chain of pilot steps aimed at development of normative and legislative environment in the VET sector, enhancement of the vocational education and training system content; provision with trainings on various topics for VET faculty and students. The Project is contributing to socially-oriented economic growth by helping the government to implement pro-poor policies and programs in Vocational Education and Training sector; to increase employment and business opportunities for the country’s remote marzes by

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<sup>49</sup> ibid

<sup>50</sup> ibid

helping them to create an enabling environment for acquiring modern knowledge and occupational skills for learners to promote their labor market access and to create possibility for establishment of their own businesses. The objectives of the Project are to upgrade facilities and furnish with new equipment the selected country’s 12 pilot VET schools; and provide labor market with skilful workforce to be trained based on updated qualification standards. The Project is strengthening the capacity of the poor and socially disadvantaged to contribute to the country’s growth by raising youth employability; developing strategic partnership between private business and vocational institutions. The main implementing partner is RA Ministry of Territorial Administration. Other partners are RA Ministry of Education and Science, National Institute of Education, National Center for VET development, VET schools; RA Ministry of Social Affairs; State Employment Services Agency, Youth Career Centers, Social Partners, Donor Organizations (EU Delegation, WB, USAID, Eurasia Foundation, British Council, etc.), etc.

Fund for the program USD					
	GVMT of Denmark	UNDP	OSIAF	GVMT of Armenia	TOTAL
“Vocational Education and Training Project”	709,371	61,000	214,000	3,450	774,035

Total approved budget for the project is 774,035 USD, from which USD 709,371 from Government of Denmark, USD 61,000 from UNDP Armenia, USD 214,000 from OSIAF, USD

3,450 from Government of Armenia. The following activities were implemented in the framework of the project:

***Activity 1: Development and Publication of Manuals:*** Development of 12 Armenian Language Manuals reflecting the current demand of the labor market will supplement the current poor libraries of the VET schools.

***Activity 2: Upgrade of Facilities for 12 Regional VET Colleges*** as Armavir and Yeghegnadzor State Regional Colleges, Vanadzor State Agricultural College and Shirak State Agricultural College, Dilijan State College, Ashtarak Artisan School and Kajaran artisan school, Spitak State College, Alaverdi State College, Goris State College and Gegharquniq State College. The colleges were provided with Wine-Testing Labs, sewing Laboratories, Agro-Mechanization Labs, auto-Driving Lab, Wood Processing Lab, etc. Procurements are either completed or in the process of completion. Having considerable savings against budget line for the development of Manuals, VET Project has allocated the released funds for the procurement of laboratory equipment for extra regional VET Colleges, based on the Letter-Request from the RA Minister of Agriculture, which was consequently conveyed to the Danish Ministry of Foreign Affairs for granting no objection. The approval of funding extra Labs for extra colleges was issued by the Ministry of Foreign Affairs of Denmark in August, 2011.

***Activity 3: Project Implementation and Monitoring:*** As a result of this activity daily management of the Project activities are improved, better visibility of Danish assistance and UNDP presence in the VET sector are ensured.

***Activity 4: Capacity Building for VET Sector:*** A four-day training program with attraction of international expert for 70 VET methodologists is successfully completed, study tour entitled “Strengthening of Social Partnership in the VET Sector” for 12 participants representing

different Social Partners at the high managerial level has been successfully conducted in Austria in 2011, Institutional and human capacity building starting from high-level VET policy makers and ending up with VET students is increased.

*Activity 5: Establishment of Labor Market Linkages with the VET Sector*

As a result of the Program more than 150 registered unemployed with the special focus on agriculture have upgraded their skills, withstand social exclusion conditioned by the economic crises, and, which is the most important, the majority of them (more than 50%) had been employed.

Future plans for 2012-2013 include:, publication of 12 Manuals with 12 Teachers Guide, approval of the Manuals content, introduction of 3 E-learning professional courses to reach the Project target, procurement of Equipment, set up of educational workshops, short-term training programs for the VET faculty on professional, development of Job Tracing Model, establishment of Revolving Fund for the published Manuals.<sup>51</sup>

## **Analysis**

There is no single party or certain circumstance to accuse in failing to reach the intended results, as all parties and circumstances are interconnected. Before the global economic crisis the economy of Armenia was developing steadily and MDG 1 was likely to be achieved by 2015. The crisis, however, that started in 2008 influenced the Armenian economy greatly. It led to a substantial drop in the state budget revenues and the subsequent efforts of the authorities to keep expenditures on track by the increase of the actual budget deficit. According to the data for the first half of 2009, the budget revenues compared to the same period of 2008 decreased by 13.5%, whereas the expenditure increased by 11.7%, comprising 34.1% of the GDP as compared to

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<sup>51</sup> ibid

26.1% of the GDP in the first half of 2008. The budget deficit in 2009 rose to above 7.6% of GDP from just 0.7% in 2008 and by the end of 2009 public debt was close to 35% of GDP from 13.2% in 2008. According to the MDG 2010 Report, due to the global economic crisis and its rather serious impact on the Armenian economy, the macroeconomic and fiscal projections of the SDP and other pre-crisis documents will not be achieved and the Government will be forced to adjust medium-term projections and targets of public spending. This in turn will probably affect the estimates of the achievability of most of the goals in the Armenian National MDG Framework. Taking into account that the crisis narrowed the fiscal space for these special social assistance policies, the achievement of the MDG 1 target values for 2015 will be at risk. Thus, according to MDG report, in Armenia the national MDG 1 Targets 1 and 2 of reducing poverty level to lower than in 1990 by 2015 and halving, between 1990 and 2015 the proportion of people who suffer from hunger will be hard to achieve. In fact, the crisis affected the achievement of MDGs moving back the current achievements of the country by almost 2-3 years.<sup>52</sup> Almost all experts interviewed consider crisis as a major reason in failure of achieving MDG 1. Undoubtedly, it influenced the further economic performance of the country, affecting almost all the spheres of public life. However, according to an expert from UNDP (12.06.12) the crisis was not the reason of failing to reduce poverty by 2015 but rather, it was a consequence of weak and fragile economic, social and political system of the country. Armenia was not strong enough to struggle against the crisis.

After a deep contraction in 2009, the Armenian economy grew at an average rate of 3.3 percent in 2010-11, which is significantly lower than the pre-crisis growth levels, and which still leaves GDP below its 2007 level. The weak recovery is supported by a rebound in agriculture, industry, and services sectors, while the stagnant construction sector has put brakes on the

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<sup>52</sup> MDG Report, 2010

recovery. All in all, the tradable sector has not grown fast enough in recent years, and the economy still relies on domestic demand fueled by foreign savings. In general, economic activity remained constrained by corruption and administrative harassment, weak contract enforcement, and an uneven playing field. Armenia reacted to the crisis by a massive fiscal stimulus that was largely financed through external borrowing. However, not only did the stimulus not prevent the economy from nose-diving in 2009, but its effects were short-lived. More importantly, the foreign funding borrowed to finance this more than doubled Armenia's public debt in 2009-10 and almost completely exhausted its borrowing capacity for years to come. Having reached 40 percent of GDP, Armenia's debt has come dangerously close to the default threshold for developing countries. The country needs to repay its external creditors over \$1 billion \$600 million. Debt service of such magnitude will seriously undermine both Armenia's foreign exchange reserves and the available fiscal space. Besides, Armenia's debt profile is very sensitive to shocks, most importantly to possible output and exchange rate shocks. There are widespread concerns about corruption in the tax and customs agency as well as about failures to collect taxes from government-connected oligarchs. Recent efforts to improve revenue generation have focused on increasing income tax rates for high-income earners and increasing collection from the small and medium sized enterprises, most of which have already been subjected to advance tax withholding and other unorthodox collection practices. Contrary to this, top government officials and parliamentarians, who are known to be very wealthy, will continue to stay off of the radar screen of Armenia's tax collectors. On the expenditure side, according to the World Bank (2009), single source procurement of public expenditures remains very high (around 80 percent), opening sizable room for corruption.

The economy is much more vulnerable to both current and capital account shocks than it was in 2008. Armenia is the only country in Eastern Europe and Central Asia that runs a larger current account deficit than it did before the crisis: its current account deficit is estimated to have crossed the 12 percent mark of GDP in 2011, a far cry from the average of 3.3 percent for the five years preceding 2008. The deficit is expected to decline only moderately in the years to come. Armenia's trade account is expected to record a deficit of a staggering 21 percent of GDP, with imports exceeding exports by a factor of almost 4 to 1, despite sizable growth in exports of metals and minerals since 2009. This growth, however, was not a result of improved competitiveness (or external adjustment), but was driven by higher external demand and prices. The inability to deliver a meaningful external adjustment—which has left the economy much more vulnerable to external shocks than it was prior to the start of the global crisis—is the main policy shortcoming of recent years. To finance these sizable current account deficits, Armenia has three options: it needs to attract foreign private investment, secure official loans, or draw down on its foreign currency reserves. The distorted business environment, weak contract enforcement, and declining purchasing power of its population will have an impact on the economy's ability to attract foreign private investment. In turn, when it comes to official financing, Armenia has reached most of its borrowing limits with the international financial institutions (e.g., World Bank and IMF). Weaker foreign reserve coverage will make a sizable depreciation or devaluation of the dram, a very likely outcome in the near future. So, the crisis had deep negative effects on country's performance.<sup>53</sup>

If considered from the UN's perspective, it had an absolutely natural and desirable objective to attain universal welfare for the world humanity, embracing Millennium Development Goals. It is not the case that UN totally failed to achieve the goal: there are some

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<sup>53</sup> [www.pf-Armenia.org](http://www.pf-Armenia.org)

sub-targets that are likely to be achieved by 2015, the one being “Proportion of population below 4.30 USD per day”. The proportion of population according to new estimates after the crisis is 21.9%, which was aimed to be less than 20% by 2015. The other one is “Family allowance budget expenditure to poverty gap ratio”, which is 71% according to new estimates. It was aimed to reach more than 50% by 2015. Other targets are hard or not likely to be achieved till 2015. Though an expert from Avag Solutions (24.05.12) finds that it is not appropriate to consider the UN in estimating the success or failure in MDG1 implementation, saying that only the local party is responsible for the results of the process as UN only gives directions, which it did properly, the implementation of MDG 1 leaving on each country’s inner activity, expert from Oxfam GB (25.05.12) finds that UN overvalued its opportunities, it was a utopian intention to reach the expected results, “as the World was not ready to such changes”, of course, not denying the shortcomings and reasons routed from Armenian MDG country implementation team, mentioning “the problem of corruption in the country as hampering factor on the way, lack of capacities, weak production and export system, monopolies, inequalities and, why not, lack of will to deal with the issue”. According to experts from UNDP (23.05.12) and “Association for Sustainable Human Development” (26.05.12), the country is corrupt, inequalities are of high level, production is weak and thus the export is at a low level, which are considered to be the driving forces of economic growth and poverty reduction. In contrary an expert from Avag Solutions (24.05.12) finds that “economic growth is not a solution to poverty reduction as the inequalities between poor and rich are of great concern here”. Besides, I came across with a paradoxical part while trying to find out one reason of failure in achieving MDG 1. As it is known, Armenia accepted and devoted itself to the implementation of the MDGs. This in turn implies that activities and contributions of other parties toward poverty reduction and overall

human development might be encouraged by the government, but which unfortunately is not the case. Armenian Caritas works separately from Armenian government, cooperating with Caritas Internationalis with the aim of poverty reduction and overall human development in rural areas. According to an expert from Caritas Armenia (22.05.12), the government puts taxes on Caritas Armenia to implement projects and programs directed at poverty reduction. “It never contributes to our action, instead hampers and creates obstacles, but in its documents says “we did this...”. She tells that after closing a school we constructed in Shirak “we work carefully, far from the Government”. She mentions the crisis also as a huge negative factor hampering poverty reduction process.

## **Conclusion**

There are several factors why MDG 1 is not likely to be achieved by 2015. On the basis of secondary data and interviews conducted, I found out that the Armenian Government has a weak performance in implementing poverty reduction because of lack of capacity leading to weak economy, resulting from such factors as corruption, monopolies, lack of democratic institutions, inequalities, etc. to overcome it. Besides, there is a crucial factor that has its additional influence on the process. The impact of the world financial crisis of 2008 was great on Armenian economy. However, the crisis is not only the reason why the goal is not likely to be achieved but also a consequence of fragile economic, social and political systems of pre-crisis times in Armenia. Of course, economy grew when the PRSP was in action but the recovery was not enough to resist the crisis. According to the data of 2007, PRSP successfully accomplished its task indicating a rather high economic growth. At the time when SDP came into being the crisis started impeding its implementation. The crisis worsened the economic conditions so seriously that today’s economic indicators are even lower than those of 2007. UN also has its

shortcomings in achieving the goal. It can be concluded that the weakness of the UN is that it does not fully commit itself to the implementation of MDG 1 in Armenia.

## **Recommendations**

- As crisis left so many negative consequences that Armenia couldn't reach the pre-crisis level yet, special plans, programs and projects are needed to support the recovery of social and economic life of the population.
- The government must urgently roll out a national program of ending the social hardships and putting the economy on a path to meaningful growth: Economic competition must be encouraged, by eliminating monopolies in the country, and minimizing the interference of those monopolists in the policy-making process, and encouraging people to work not hampering their economic activity.
- Enlarging production will automatically bring to export enhancement which is quite important for Armenia at present
- The financial crisis is accompanied by the reduction of production capacities leading to mass labor force reductions. Based on this, expand unemployment benefits to prevent the process of migration.
- Construction of factories or reconstruction of the old ones in different areas of the country will provide people with work-places and enlarge production of different goods
- Expand the scope of food aid and food security, and other social protection measures. In particular, introduce a school feeding project in the most vulnerable communities to ensure that children at primary school level have at least one nutritious meal improving children's food security, development, health and learning.

- Struggle against corruption through new and strict mechanisms (strict methods of punishment, like large amount of levies on those who corrupt). Corruption and administrative harassment are the key indicators of eradicating economic, social and overall human development.
- To regulate taxing environment, putting commensurate taxes on SMEs and high income earners in accordance to each one's income.
- Instead of putting taxes and hampering other partners' activity that struggle against poverty, encourage them, have additional input in their projects as the international community that assists those organizations is very much interested in whether the Armenian Government has its part in contribution to the projects.
- Improve the evaluation and monitoring system to gather proper information to successfully implement the process of poverty reduction.
- New tax administration and expenditure management should be developed. In addition to enforcement, tax and customs rules and regulations should be made clearer, less subjective, and less prone to rent-seeking.
- Implementing the above mentioned will decrease the gap of inequalities between the rich and the poor in the country, which is a huge concern and can't be solved just growing the economy
- Enlarge the amount of family subsidies of poor to provide them with an opportunity to enter educational, health care services
- To accomplish all of the mentioned should start with forming legitimate authority more fair, solicitous and responsive to oversee the new policy

- For successful results of MDGs, UN should lend money to Armenia to implement different projects and programs, instead of granting it. This will make Armenian government be more responsible and favorable in implementing various activities.
- The whole ruling system of the country must be changed starting from legislative branch to recover the country and promote democracy. Democracy and democratic government are the solution of all problems (political, economic, social, etc.) in the country.

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## Questions for Interview

- How do you appreciate UN's action in Armenia regarding the implementation of MDG 1 (eradicate extreme poverty)?
- It's known that the results foreseen to achieve by 2015, are not likely to be achieved. Which side (UN or Armenia) fails to implement (poverty reduction)? How? What are the reasons?
- Has PRSP worked as needed to implement the goal?
- Why PRSP changed to SDP? What is the logic of changing "poverty reduction" to "sustainable development"?
- What projects or programs has PRSP (then SDP) implemented to reduce poverty since 2003? Are there concrete successes or failures?
- How did UN contribute to the PRSP in its action?
- Why MDGs are going to be changed to SDGs?
- Is there a country that UN entirely succeeded or will succeed by 2015 to eradicate poverty? (Georgia, Azerbaijan)?