

MIGRATION AND THE ECONOMY IN ARMENIA

THIS MONTH

APRIL 2009

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FINDING YOUR WAY

**The economic
downturn has hit
Armenia.
Don't panic.
There is
opportunity,
even during tough
times.**



Living without cash: Barter is back.
Page 3



**Will a \$750 million government loan
strategy really help small business? Page 6**



**Why is this man smiling?
Advice on building a business in bad times. Page 6**



There is a new joke circulating lately: The economic crisis comes to Armenia, looks around, and says "Hey, Who got here before me?" The good news for Armenians is that the economic crisis is old news. Not only that: it should create some new opportunities. The devaluation of the dram against the dollar (which we predicted, by the way, in our March 1 issue), for example, means that it's

cheaper to export goods and U.S. dollar remittances, upon which roughly half the country depends, will be worth more. What's the key to not just surviving, but thriving? Think local – as in buying local goods, supporting local business and looking for work at home. Think small – as in supporting and/or starting a small business. And visualize success in small steps, not a get-rich-quick scheme. The April 1 issue of *This Month* is dedicated to helping you find your personal plan based on real possibilities. Our first bit of advice to you is practical, and has age-old roots: barter (Page 3). Trading goods and food for services may be the best short-term strategy for stretching smaller paychecks. Even the Russians are returning to it! In a tight job market, having the right skills is crucial to being able to find work. The country doesn't need any more mathematicians or philosophers. What it does need are skilled workers in all fields, from welding to sewing to computer programming and beyond. Free re-

training in various skills is offered by state employment agencies and private donor agencies – find out what opportunities are available (Page 2, below). Armenia's economy, of late, has largely been based on the steady stream of workers leaving to find better-paying temp jobs on Russian construction sites. Has that necessarily enriched the country? We look at statistics from a recent Eurasia study of eight small Armenian communities to see how much money migrant workers really take or send home – as well as how much it has affected the unemployment rate (Page 4-5). Regardless, it looks like many workers will be staying home this year. What are their real prospects for finding local jobs? (Page 5) Some poor Armenians, particularly those living in the south, are trying to move to Karabakh's disputed territories, where they trade personal security for a resettlement package with free housing. But that's not an option for now: the program is temporarily frozen. (Page 6) An economic downturn often encourages more people to start their own businesses. The government plans to borrow millions of dollars to invest in small business loans: realistically, how easy will it be to get those loans? (Page 6). If you do start a business, read about Sevan entrepreneur Mayis Sargsyan, who built up a successful manufacturing business during the cash-strapped early 1990s. (Page 6-7) Armenians have too long been economically dependent on the outside world, whether it be through remittances or looking for work in other countries. Now that the world is in an economic crisis, there is nowhere else for Armenians to turn. They must start building their own economy and supporting themselves. And that means, as the economic crisis of the joke might suggest, there is room to grow. **Best Regards,** *This Month* editorial team

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Այս թողարկումը հնարավոր է դարձել ԱՄՆ ժողովրդի՝ ԱՄՆ միջազգային զարգացման գործակալության միջնորդության շնորհիվ: Դարտադիր չէ, որ թողարկման բովանդակությունը արտացոլի «ԱՅՈՒՆԵՔՍ-ի, ԱՄՆ ՍԶԳ-ի կամ ԱՄՆ կառավարության տեսակետները:

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Jobless Armenians Can Grab Retraining Opportunities This Spring

By Armine Gevorgyan
This Month

ECHMIADZIN - Five years ago, it never would have occurred to 55-year-old high school teacher Anahit Sargsyan, a resident of Aghavnatun village, that she would trade her chalkboard and eraser for a shovel and hoe. But when the 30-year teaching veteran was laid off in 2004 along with 4,000 other educators, it quickly became clear that farming in her agriculturally rich region was the best employment option. The only problem was that she didn't know how to farm. "It was definitely hard to go from being a teacher to becoming a farmer, but I had no choice," she said. "And the new times brought new challenges. I used to only grow flowers in my garden." Today, Sargsyan runs a successful business, growing and selling greens on 1,500 square meters of land, and she's just applied for a loan to expand her product base to include tomatoes, potatoes and peppers. She credits her success, partially, to a training program offered for new farmers in her region run by the NGO Vista under the U.S.-funded Millennium Challenge Water-to-Market program. The retraining project was one of many developed to help the teachers following the mass layoffs to acquire new job skills. Currently, employment officials are launching a similar nationwide effort to combat the financial crisis. Some programs are funded by international donors, others by the government's state employment service, and are free to attendees. The type of training varies by region, depending upon what job opportunities are available. "We prepare people for work that meets the real demands in the



DESIGNING WOMEN This 2008 Yerevan retraining is focused on special events catering and table design. Employment agencies across Armenia offer free retraining courses for unemployed workers registered at their centers. PHOTO FROM THE RA STATE EMPLOYMENT AGENCY.

market, teaching different construction trades, as well as courses on computer design, clerical work, publishing, and accounting," said Ruzan Arshakyan, head of program coordination at the State Employment Service Agency, adding that trainees receive certification to help them in their job search. Officials say retraining works, though they can't point to how many people have gotten jobs based on retraining since 2004. Sometimes, companies will request a specific retraining program from the state. For example, the state employment service recently prepared 20 tailors at the request of the Yerevan Tospa knit-wear business. After the initial three-month training, participants went through another three-month, part-time, unpaid internship at the factory before starting work.

Some retrainees have discovered that a traditional higher education didn't help them stay employed. Echmiadzin resident Nvard Hovhannisyanyan worked as a geologist before losing her job in 2007. She was then retrained to become a seamstress for a local firm. "I could cut and sew on an amateur level, but now I am a certified professional," said Hovhannisyanyan, laughing. "At first it is difficult to adjust to the idea that the years spent on earning a university education were in vain, but you eventually realize it's much better to have a job and live decently." The marzes most immediately and deeply affected by the economic crisis were Lori and Syunik. Three mining factories have closed down in Alaverdi, Kapan, and Agarak, leaving 3,000 people unemployed. The unemployment rate

in both regions jumped as high as 15 percent in the last two months, according to state statistics. Employment officials in these regions see the economic downturn in Russia as an opportunity: most of the country's skilled construction workers will be looking for jobs at home this year. "We should be able to make use of their potential," said Ara Arakelyan, director of the Lori Marz Employment Center. "New large-scale construction is planned in Gyumri this year (see *Construction*, Page 5) and this labor force can be employed in order not to have these people get frustrated and leave again." Arakelyan's approach is to survey his region's companies to see what specialized skills are needed. His center has already organized a training course in January for cooks and confectioners in Vanadzor. The Vanadzor-based computer training company DVV International recently hired 12 trainees from a computer text processing class. The crisis is not only forcing people, but also companies, to change. When the universal demand for carbide dropped in 2008, one of the main producers of carbide in Vanadzor, the Vanadzor Chemical Industry Ltd., decided to make crop fertilizers instead. Though the company reported it laid off 300 of its 800 employees last November, they plan to rehire everyone back and add another 200 employees this year. They plan to make 60,000 tons of fertilizer a year and sell it locally. "I believe this is a realistic strategy to help us out of the crisis," said Alexander Snegiryov, the company's owner. **-Including reporting from Naira Bulghadaryan and Davit Grigoryan/Vanadzor**

Registering at your regional unemployment office makes you eligible for free retraining programs. Some agencies offer programs for targeted groups (such as disabled citizens) or all citizens. The following is a list of agencies and courses that may be available during the year. Contact your local agency if you want more information about retraining in your area.

- 1. Ijevan (0263) 31567**
Offers courses in: Internet Technology; Hairdressing; Embroidery; Hotel service; Car mechanics (fuel, transmission, electric and engine servicing and repair); Special events catering.
- 2. Gavar (0264) 62614**
Offers courses in: Sewing; Hairdressing; Manicurist; computer skills; woodworking
- 3. Kapan (0285) 22827**
Offers courses in: Floral design; Hairdressing; Manicurist
- 4. Gyumri (0312) 51405**
Offers courses in: Clothes design; Newspaper design
- 5. Eghegnadzor (0281) 22652**
Offers courses in: Knitted goods factory retraining
- 6. Vanadzor (0322) 22078**
Offer courses based on market demand. No classes currently scheduled, call the center for info on next training.
- 7. Hrazdan (0223) 62702**
Offers courses in: Computer operators; Hairdressing; Make-up; Cooking
- 8. Artashat (0235) 24172**
Offers courses in: Hairdressing; Table design; Flower design
- 9. Ashtarak (0232) 35233**
Offers courses in: General professional training for blind people; mill machine operators; real estate agents; canning; special training for local dairy company Astarak Kat
- 10. Armavir (0237) 63406**
Offers courses in: computer operators; Floral design; Hairdressing
- 11. Yerevan (010) 298103, 283921**
Offers courses in: European door making; Computer operators; Artists training (for disabled only); Real Estate agents; taxi driver training



Living without Cash

Barter may be the best short-term solution to financial crisis

By Gayane Mkrtchyan
ArmeniaNow.com

Every Thursday the barter economy arrives in the village of Geghard about 45 kilometers from Yerevan in a Yeraz truck, owned by Susanna and Seyran Arakelyan (not their real names). When the Arakelyans open the Yeraz, it becomes a variety store, stocked with household goods, supplies, clothing and shoes.

But very little cash changes hands here.

"We try to make barter mutually beneficial," said Susanna. "We trust the people who buy from us and they trust us. Some pay with cash when they can, but others pay with produce and dairy products."

There are no reliable statistics on barter in Armenia, but it part of a long-standing tradition in rural areas. Perhaps because non-cash transactions are difficult to tax, a former longtime planting director from the Ministry of Agriculture, Garnik Petrosyan, told *This Month* there are no official barter statistics.

Of course, barter isn't only an Armenian phenomenon, particularly in these tight economic times. The *New York Times* newspaper recently reported that a Russian man offered to exchange 2.5 million rubles in underwear for an automobile. During the 1990s, government statistics showed that more than half of all sales by mid- and large-sized industries in Russia were barter transactions. The no-cash transactions fell out of favor when the Russian economy stabilized; but since the current downturn in the Russian economy, the *Times* reported, bartering is back.

The Arakelyans live in Kanachut, in Ararat Marz, a region known for the high quality of its produce. They have been trading with farmers in small villages for more than ten years. Besides household goods and clothing, they also trade tomatoes, cucumbers, egg-plants, and pepper for cheese, lard, butter, eggs, and plain yogurt.

"Autumn is the time for apples and pears to ripen, and that is when active trading hits its peak," Susanna said. "We take the fruit, vegetables and dairy products that we trade for here to sell in the Yerevan markets."

Fifty-two-year-old Tsaghik Matevosyan of Geghardir said the system is especially helpful for the people of her village in the spring.

"We do not have cash in spring, and barter is



LINEN FOR LETTUCE: Yerevan resident Susanna Vardanyan sews bed linens and clothes, which she trades in various Armenian villages for fruits and vegetables. She then sells the produce in Yerevan. It's a common practice to turn barter into a cash business in Armenia. PHOTO BY NAZIK ARMENAKYAN.

the best way to support ourselves. And it is easier for us to buy products next door, than to spend our money traveling to Yerevan. The vendors wait to collect debts in autumn during harvest time," she said.

Residents of Aknashen village in Armavir Marz barter on a larger scale. Several times a year they rent a bus to carry their products to villages in Gegharkunik and Aragatsotn marzes for three or four days of bartering.

"Normally, resellers buy it cheap from us and sell at a higher price. We get more by trading green hot peppers, the cucumbers, the grapes, even the ground paprika and the dried basil that we bring for potatoes, barley, apples, cabbages, and nuts," explained farmer Ofik Gevorgyan.

The price of a kilo of pickled green hot peppers may be two kilos of apples or four kilos of potatoes, depending on the season and the price in the markets at the moment. Ofik's husband, Garush Gevorgyan, said they not only buy enough food for the winter, but also products they can resell.

Barter often provides a connection between remote regions and the city. Susanna Vardanyan, 42, supports her family in Yerevan by bartering her handicrafts with farmers. She takes the bed-linens she makes to small villages and returns with vegetables and dairy products to sell in the market. Susanna said the linens will sell for 5,000 AMD (about \$14) in Yerevan, but in the villages she trades them for potatoes, at the equivalent of 80 drams per kilo. She then sells the potatoes in Yerevan at an equal or greater value.

"If you take into account the fact that I have to have a cash register when I sell the bed-linens in the market and pay taxes to the state, there is no doubt that this option is much more profitable," she said.

Barter also works for Marat Petrosyan, an automobile mechanic in Echmiadzin, who often accepts payment in farm products rather than cash.

"Otherwise I would have to go to the market to buy the same product from a reseller. It is cheaper in this way. I often go to villages, to repair cars on site, and receive payment in kind. We consume as much as we need, and I sell the rest. Thus, I make a profit," said Marat.

Barter has both economic advantages and shortcomings, according to Agronomist Petrosyan.

"After the collapse of the Soviet Union, supplying institutions were dissolved and resellers came forth spontaneously," he said. "Hundreds of people are involved in this type of business, and they are not registered anywhere. This can be considered unacceptable from a purely legal viewpoint. However, from a different perspective, there is no doubt that they are playing a central role in the movement of goods."

Artur Harutyunyan, a teacher at the village of Geghard, supports the barter system. He asked how a peasant can leave his/her business at the most intense time of work, to deal with selling the product. "The problem is solved by bartering," he said. "We save our time and our resources."

The bartering now happening in Armenia appears to take place mostly in rural areas and is much less elaborate than systems being revived by entrepreneurs in Russia, who are attempting to set up clusters of large industries to barter everything from lumber to automobiles.

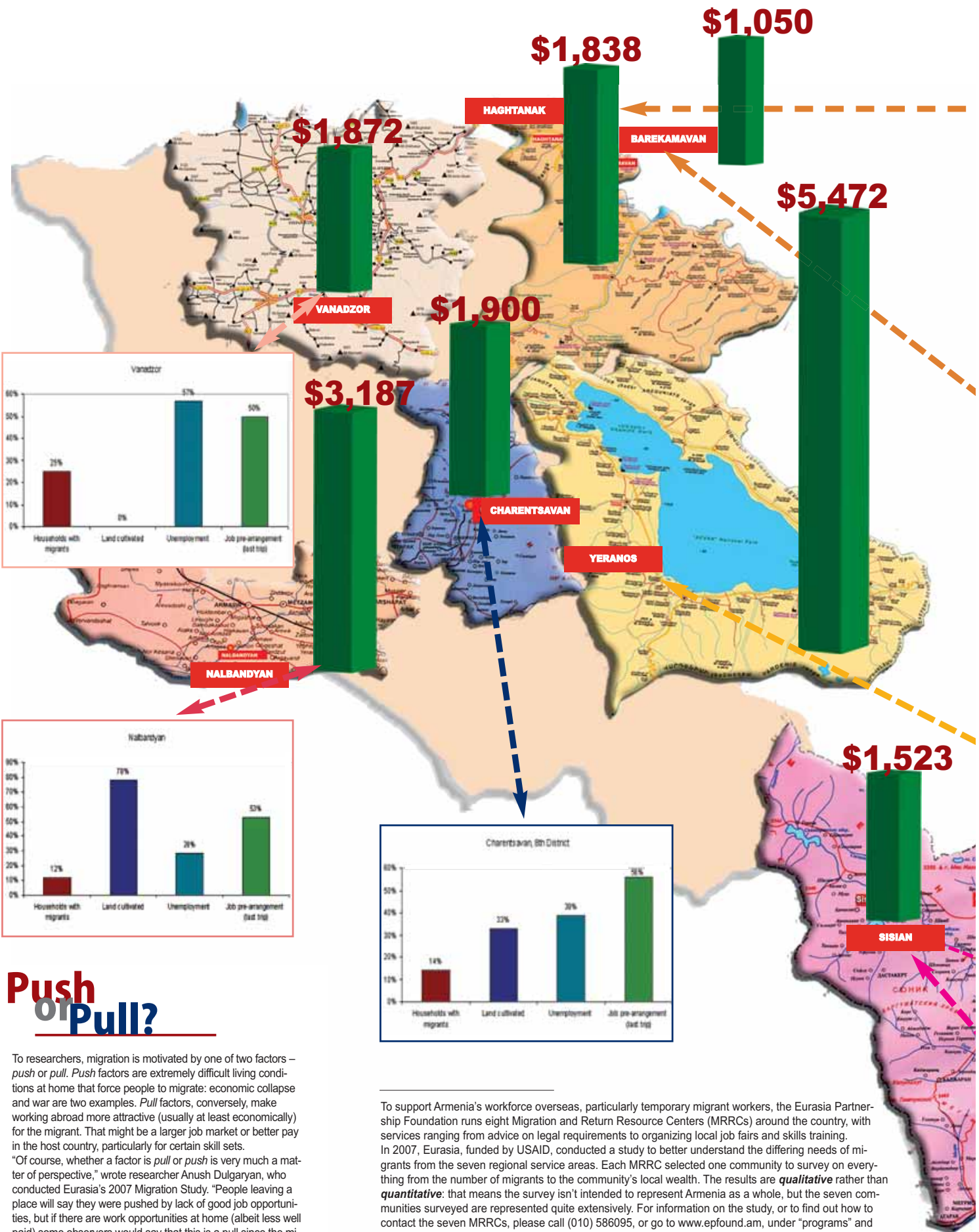
In some cases in Armenia, vendors use bartering as a way to extend credit to farmers until the crops come in and sometimes the vendors who exchange necessities for farm products are simply filling the need for a transportation link between the farmers and their markets.

The dram's sudden loss of value may inspire others to begin seeking payment in products of known value rather than money, and in the process essentially cut out the taxman, but for the time being, as far as the government is concerned, such a practice officially does not exist.

Susanna Vardanyan said that barter looks more attractive during a currency devaluation. Ultimately, money may fluctuate in value, but the value of real products remain constant, she said.



TRADING PLACES: Enterprising Armavir farmers like the Gevorgyans, Ofik (left) and Garush, spend three or four days a year bartering the basil and hot peppers they grow with produce and dairy products from neighboring villages. PHOTO BY GAYANE MKRTCHYAN.



Push or Pull?

To researchers, migration is motivated by one of two factors – *push* or *pull*. *Push* factors are extremely difficult living conditions at home that force people to migrate: economic collapse and war are two examples. *Pull* factors, conversely, make working abroad more attractive (usually at least economically) for the migrant. That might be a larger job market or better pay in the host country, particularly for certain skill sets.

“Of course, whether a factor is *pull* or *push* is very much a matter of perspective,” wrote researcher Anush Dulgaryan, who conducted Eurasia’s 2007 Migration Study. “People leaving a place will say they were pushed by lack of good job opportunities, but if there are work opportunities at home (albeit less well paid) some observers would say that this is a pull since the migrants chose to go.”

Is Armenia’s migration categorized by *push* factors, *pull* factors, or both?

To support Armenia’s workforce overseas, particularly temporary migrant workers, the Eurasia Partnership Foundation runs eight Migration and Return Resource Centers (MRRCs) around the country, with services ranging from advice on legal requirements to organizing local job fairs and skills training. In 2007, Eurasia, funded by USAID, conducted a study to better understand the differing needs of migrants from the seven regional service areas. Each MRRC selected one community to survey on everything from the number of migrants to the community’s local wealth. The results are **qualitative** rather than **quantitative**: that means the survey isn’t intended to represent Armenia as a whole, but the seven communities surveyed are represented quite extensively. For information on the study, or to find out how to contact the seven MRRCs, please call (010) 586095, or go to www.epfound.am, under “programs” and “labor migration.”

For information on quantitative migration trends in Armenia, contact the Organization for Security and Cooperation in Europe (OSCE), which has conducted nationwide research since 2002, and recently released a third report in 2008 on migration data. Please call (010) 229610, or go to www.osce.org/ghrtp://www.osce.org/yerevan/item_11_35901.html



Will planned in-country construction projects create enough jobs?



STAY HOME PAY? As Russia's economy tightens, tens of thousands of Armenian temporary workers are not going to be crossing the border this year to work on construction sites. To employ these people, the Armenian government is investing more in local road and building projects, but experts say it won't be enough to employ the entire skilled labor force. **PHOTO BY PHOTOLURE.**

By Sara Khojayan
ArmeniaNow.com

As the worldwide economic crisis tightens its grip, Armenia's temporary migrant workforce is feeling the pressure. Nearly all of these workers are accustomed to traveling to Russia each spring for higher-paying construction jobs and this year many will be forced to stay home.

To boost Armenia's flagging construction industry and employ this skilled workforce, as well as laid-off miners, the Armenian government has budgeted to spend a third more on local construction projects this year than last year. They are also touting a \$300-\$350 million loan package that will be injected to revitalize the local construction market, funded largely by international donors such as Millennium Challenge, World Bank and the Asian Development Bank.

Yet government officials are vague about how many jobs will be created, and whether it will be enough to cover both layoffs in the local mining industry and many of the roughly 200,000 Armenians, most of them men, who normally leave to work on Russian construction projects each year. The government's lack of "democratic transparency" has also caused at least one funder - U.S. funded Millennium Challenge - to withhold funding for a \$60 million road project currently employing thousands.

Even more alarming is that some economists believe the investment in local infrastructure will not be enough to offset substantial losses to Armenia's construction sector over the past year.

"Even if extra construction projects are started, they will only partially relieve unemployment, because private investments have decreased," said economist Andranik Tevanyan, head of the Politeconomica Research Institute.

In the past few years, Armenia's double-digit GDP growth was largely credited to new construction. Last year the entire sector ground to a halt: when compared to the 17 percent construction growth seen in 2007, in the first half of 2008 the construction industry grew only 1.7 percent. As the year went on, the situation worsened, with the autumn months marked by a 40 percent decrease in construction projects.

The crash's reversal of fortunes particularly affected private investors like Gerard Cafesjian, who's benevolence has not only

funded several arts projects in Yerevan but also rebuilt the Cascade staircase. The situation forced Cafesjian to halt construction on a \$25 million Modern Art Museum originally slated to open in 2012.

In the meantime, the number of job seekers continues to grow: as of March 1, there were approximately 95,000 registered unemployed people, 8 percent more than the same time last year. That growth is not just attributed to an ever increasing number of people laid off in the mining industry, but also laborers who can't find work abroad.

As early as last November, Armenian government officials were talking about boosting the local construction market. Prime Minister Tigran Sargsyan has repeatedly insisted the increase in spending for government construction projects is a primary strategy for boosting the local economy.

"The quick and efficient implementation of these programs will mitigate the impact of the world economic crisis on our country," the prime minister told attendees of the Bridge 2009 International Economic Forum in late February.

Currently, the projects listed in the state-funded budget include re-building homes for 208 families in Stepanavan, Maralik and Tsaghkahovit Village with 770 million AMD (about \$24 million), and another 22 billion AMD (about \$59 million) for rebuilding and renovating 290 public buildings such as schools, hospitals, cultural centers and sports arenas.

That will increase state spending by at least 34 percent over 2008, when approximately 5.6 billion AMD (about \$15 million) was spent on public construction.

However, it is not yet clear when some of the projects will be launched, in particular, a major undertaking such as the construction of the Meghri - Batumi highway. Experts are unanimous - swiftly starting these projects for the purposes of stimulating immediate economic growth is virtually impossible. ADB officials are apprehensive about statements regarding the project, refusing to answer any questions for *This Month*, but Prime Minister Sargsyan has said he hopes the projects will start this year.

It is also unclear how many new local construction jobs will be created.

Ani Armenakyan, the ministry's press spokesman, said bids must be announced

and contractors selected before any actual job figures can be calculated. Several local construction companies also say they can't confirm employment estimates.

Unlike the government construction projects, international donors are quicker to respond: several projects funded by the World Bank and the Millennium Challenge program are already underway.

World Bank, spurred by the economic crisis, started four of 11 planned projects in February, including a multi-region road construction project estimated at \$25 million.

"These projects were organized very rapidly - they were developed, calculated, ratified and launched within two months," said Vigen Sargsyan, a World Bank spokesman.

He can't estimate how many people will be employed in the projects spanning nearly every marz in Armenia.

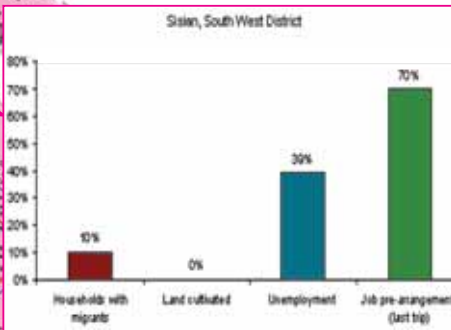
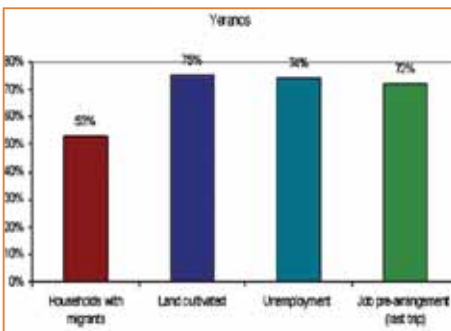
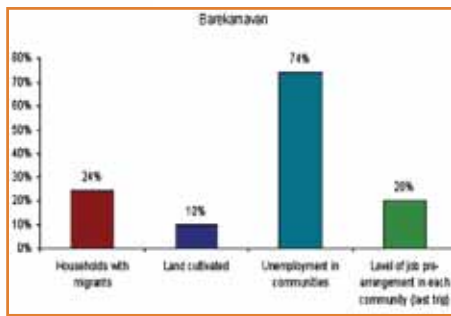
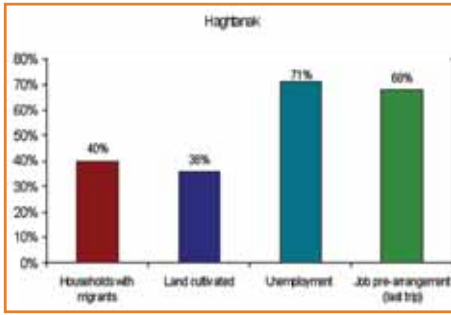
The Millennium Challenge Account (MCC) Program for Armenian farmers is also going forward. Activities include the repair of portions of the Arzni-Shamiram canal, launched this January, which should employ about 300 people. A project to renovate and construct irrigation structures is expected to be launched sometime this year, employing people for two or three years.

But the biggest MCC project, a \$60 million 273-kilometer rural roads reconstruction project started last spring and co-funded by the Armenian government, may be stopped by the summer.

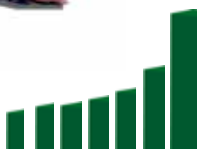
At the height of the construction season, the project can employ about 3,000 people, but that work could stop as early as June if the government's share, \$16.8 million, runs out and MCC funding, which has been placed under an "operational hold" due to concerns about the country's lack of democratic governance, isn't released.

In late March, the MCC Board chose to continue holding back funds until Armenian officials "showed good governance," and will hold a special session prior to the June quarterly meeting to decide whether to release the money.

"The Board's decision (in March) signals to the government that it has failed over several years to address concerns raised not only by MCC and other U.S. Government agencies, but the international community as well," said an MCC press release.



HOW MUCH MONEY COMES BACK TO ARMENIA?
Average yearly 2007 earnings (including both remittances and take-home pay reported by community)





News Analysis:

Will you be able to start a business with the government's \$750 million plan?

By Gayane Abrahamyan and Leah Kohlenberg
This Month editors

To reverse the impact of the economic crisis, Armenian officials announced they have borrowed \$500 million from Russia and \$250 million from the World Bank, primarily to invest in small- and medium-sized business development. On the surface, this seems like a progressive and aggressive strategy that addresses problems caused by the economic downturn in Russia and higher unemployment at home. Experts agree that the shrinking job market will force people to create their own jobs and providing small business loans may be the best way to jumpstart business development in Armenia.

However, historically such programs have seldom trickled down to the average Armenian, and the government has yet to offer any assurances that this money will be spent any more transparently or effectively than during previous attempts. Thus far the government's strategy is characterized by rushed and poorly planned programs with little oversight and few specific goals.

"I can't say anything about how we would spend the Russian money," said Mushegh Tumasyan, deputy economic minister. "We are still discussing it and still we have no specific plan yet."

The first warning sign is that the government seems to be inflating the amount of money they were able to procure. World Bank reported they are investing \$50 million – not \$250 million – that will be deposited in seven banks selected to handle small and medium-sized business loans, to be repaid in 30-40 years. World Bank officials have admitted that these loans will be more difficult to get as the financial crisis causes banks to tighten credit requirements. They also concede they won't be able to monitor whether the money actually goes to small businesses.

"When banks give loans they are taking on the risks themselves," said World Bank Economist Karen Grigoryan. "So the banks must decide interest rates and to whom they can lend money. We can't



SO LOAN-LY: Everyone from the Armenian government to the World Bank contends the solution to small business development is to invest more money in small business loans. Yet banks say they are less likely to lend money during tight economic times. How will that money trickle down to small business owners like this produce seller in Yerevan's Malatia market? PHOTO BY NAZIK ARMENAKYAN.

interfere with them."

For the industrial south, which has been especially hard-hit by the shutdown of two major manufacturers, developing small business via loans will be tough. Nelson Nazaretyan, manager of VTB-Armenia Bank in Kapan, reported that loan requirements have become

stricter since autumn.

"The bank has defined a so-called target group to work with," he said. "Those are employed people who get high salaries, that is, they are trustworthy. These are loan takers who work in the hundred largest tax payer companies of Armenia."

"The Kapan plant, for instance, used to be on the list," he continued, "but today its employees have naturally become clients of high risk to us."

These statements are common in the Armenian banking industry, and they point to a major flaw in the loan strategy: the very existence of a "target" list demonstrates the funds are destined to be doled out amongst the prosperous few rather than emerging small business entrepreneurs. The money from World Bank, which should be helping banks take risks they wouldn't normally take, doesn't seem to be working that way.

Government economic officials claim the \$50 million World Bank loan is the first phase of a \$250 million request. According to Deputy Minister Tumasyan, the government has also submitted proposals for loans to revamp education and irrigation. But World Bank officials say that money is not guaranteed yet.

Looking at the government's past track record on supporting small business does not inspire confidence, either. The Armenian Small and Medium Entrepreneurship Development National Center has been operating since 2002, and claims to have consulted with nearly 8,500 businesses and provided financial support to more than 4,800 new and existing businesses in 2007 alone; but that did not lessen the alarming drop in the number of small businesses here. Over the past two years, nearly 30 percent of Armenia's small and medium sized businesses have gone out of business, according to the National Statistics Service.

The government-sponsored centers – located in the capital of each Marz – offer training, analysis of business plans submitted by operating businesses or aspiring entrepreneurs and help applicants qualify for low interest, three-year bank loans with loan guarantees of up to 10 million AMD (about \$28,000). Arsen Sargsyan, chairman of the Center's branch in Gegharkunik, said most new businesses fail because of lack of information about financial management and the market. On the positive side, he claimed he can point to 50 entrepreneurs, both beginners and some with business experience, who have suc-

ceeded after receiving loans and assistance from his center. He boasted that those entrepreneurs market products including cheese, fish, confections, bread and shoes throughout the republic.

Simon Martirosyan is counted as one of Sargsyan's success stories, but such claims should also be cautionary. When Martirosyan returned to Armenia from Poland in 2004 he had no intention of starting his own business, but a local training program convinced him and his wife to start a bakery.

Their first three years in business were promising, enabling them to expand to produce cakes and sweets, and to begin repaying their loan. But recently, as the economy has worsened, he said his sales have fallen off while the cost of the flour and other raw materials he uses have climbed, thanks in part to protectionist government policies that keep flour an expensive, mostly imported product. Now he's once again looking for help and having difficulty finding financing. "I can't get a loan because business is bad now, and the interest is too high," he said.

But the biggest obstacle to success in business in Armenia, business owners and economists say, is a pattern of arbitrarily applied, punishing, sometimes illegal tax policies targeting less "connected" small and medium-sized businesses. A look at 2008 tax revenue quickly shows the inequity: more than 50 percent of revenue is collected through a sales taxes passed onto ordinary Armenians, while another 25 percent is shouldered by small and medium sized businesses. The remainder is covered not only by large companies, but also state institutions like universities. And that doesn't take into account the shadow economy, when big business men break up their companies to hide assets, according to economist Andranik Tevanyan.

"Loans are not the best strategy right now," said the head of the Politeconomia Analysis Center. "What small business owners need is to be free from unfair taxes."

- Including reporting by Armen Davtyan/Kapan and Armine Ghukhasyan/Sevan

How to succeed in business - by really trying

By Armine Ghukhasyan
"Sevan" Newspaper

Sevan entrepreneur Mayis Sargsyan is that rarity in Armenia: a self-made business man whose success does not depend on oligarch-style intrigue.

Using money he saved during the 1980s and managed to pull out before banks collapsed in 1992, the then-32-year-old entrepreneur bought a small, non-descript building – something he describes as nothing but "four walls" – and started a plastics manufacturing business making buckets, plates, coffee makers and other household goods.

Eighteen years later his enterprises have grown to include the manufacture of clothing, thread, carpets, electrical appliances and even goat milking equipment, employing 200 people during the busiest seasons. Roughly 80% of his production is for export, so the drop in the value of the dram will make his products more attractive on the international market,

which he hopes will somewhat offset the effects of the global economic downturn on his business.

Sargsyan said his formula for success is simple: non-stop working, planning ahead, being honest with partners, and protecting and seeing ideas through.

"Every single business has to be based on an idea," he said. "It would be useful if beginners took the experience of the more skilled businesspeople into account."

Sargsyan said one needs skills to organize and manage a business, knowledge of laws, and sometimes, relevant training programs.

He's skeptical whether loans alone will adequately boost the local economy, because people won't be able to afford the interest.

"It would be hard to start a new company now," he said. "It was easier for beginners 15 years ago, because there was less competition."

Sargsyan believes businesses shouldn't stick with one type of production when the product is no longer

in demand. Rather, he said, it's better to understand the demand of the market and change what you produce, as he has done over the years.

"The important thing is not what you can produce, but what you can sell," he said. "I work with what the market demands. This is being flexible and pragmatic."

Sargsyan said he hasn't had to borrow until three years ago, when he took out a 40 million AMD (about \$100,000) loan to finish an amusement park in Sevan. "I have paid back two million AMD (about \$26,000) so far," said Sargsyan, who offers free admission to the park, but charges for rides and special events.

Sargsyan is confident about the future of his manufacturing enterprises, but he cautioned aspiring entrepreneurs to do their homework first and to expect a lot of hard work.

"Very often people start a business with too little thought, the desire for quick profits, and a poor knowledge of the market," he said. "Entrepreneurship means constant attention."



SEVAN SUCCESS STORY Entrepreneur Mayis Sargsyan discusses the amusement park he is building in Sevan with his workers. He says variety has helped him continually to make profits: over the years, he's produced textiles, plastics, thread, carpets and electronics.

PHOTO BY NAZIK ARMENAKYAN



Karabakh disputed territories not an option for Armenians seeking free housing

By Naira Hayrumyan
ArmeniaNow.com

When Samson Hovsepian moved from Hoktemberyan over the border to Karabakh six years ago, he had only one calf, and he left behind a small piece of land that was barely able to sustain his family.

Today Hovsepian runs a farm with 40 cows and heads UKhtadsor, a community of 14 households, located 21 kms from the Karabakh capital of Stepanakert.

"This land yields gold," said Hovsepian, whose eldest son is also going to settle there this year.

Stories like these have lured Armenians back over the border into the disputed territories of Karabakh controlled by Armenian forces since the Armenian-Azeiri war's ceasefire in 1994. To encourage Armenian settlement in the once-Azeiri populated areas, Karabakh officials have offered people willing to move there free housing, land to farm, a 200,000-230,000 AMD (about \$535-\$615) relocation fee and other benefits. Mostly settled by displaced Armenian war refugees from Baku and other parts of Azerbaijan, the tradeoff for the cushy resettlement package is uncertainty about the region's future in the frozen conflict.

In fact, in the past few months, the number of Armenian applicants looking to settle in the disputed territories has spiked dramatically. Many are from Syunik Marz, where 3,000 people lost their jobs when two major mining plants closed down in the past three months. To these desperate people the disputed territories of Karabakh and the relocation benefits look like a good option.

But for now the eager applicants will have to wait, because the so-called "repatriation" program has been frozen.

Officials claim the freeze is temporary, and they will use the time to put together an even more impressive benefits package that will attract hard-working, self-starting pioneers. The new proposals include: bumping the relocation fee up to

1 million AMD (about \$2,700), for example, and offering no-interest business loans, free cattle and agricultural machinery.

"We ought not to invite people over and make them face multiple hardships and threats. We must ensure at least basic conditions of economic development," said Narine Azatyan, Karabakh's Social Security Minister.

Yet it's also possible that the government may be worried about the prospect of financially supporting the pioneers. Even after the budget was enlarged by the increasingly generous donations of Diaspora (2008 donations from Armenians abroad doubled over the previous year), the future remains unclear. The territories have become political hot points of late: international negotiations over Nagorno-Karabakh often stipulate that Azeiris be allowed to move back to the territories. Some proposals suggest that the area should be turned over completely.

But more importantly, Karabakh officials may be trying to filter out people looking for a free ride. They've already experienced a flood of reverse migration from the territories in 2000, when the government began asking repatriated residents to pay taxes and electric bills.

"We see these new applications as having serious potential for economic development in the region," said Social Minister Azatyan.

After the launch of the repatriation program in 2005, Armenians displaced from Azerbaijan as well as residents of the Shahumyan region now controlled by the Azeiri military were among the first to be resettled in these areas.

Repatriation was most active in the disputed territory of Kashatagh (formerly Lachin when under Azerbaijan control). This zone that bridges Armenia and Karabakh was separated from Karabakh in 1936 by the Soviet authorities who granted it the status of a separate region within Azerbaijan.

Between 1994 and 1999, the number of Armenians living in Kashatagh grew to 12,000 people. Special privi-



REPATRIATE GAMES Many more destitute Armenians are applying to move to disputed territories around Karabakh, trading secure internationally recognized borders for free housing and land offered by Karabakh officials as a "repatriation package." They'll have to wait, as the program is frozen for now. GRAPHIC BY POGHOS VARZHAPETYAN/THIS MONTH.

leges were granted to the repatriates initially: they were excused of all taxes and electricity payments for a period of five years. In 2000 when the term of those privileges ended, people began to leave.

It's hard to track the number of people currently living in the disputed territories, Karabakh officials say, but they estimate up to 12,000 people are permanently residing in the Kashatagh and Armenian controlled Kalbajar regions.

It's not just economic development that's freezing Karabakh's repatriation efforts but also the uncertainty in foreign policy regarding the disputed territories.

The statements, made by political figures and mediators regarding the return of the disputable lands to Azerbaijan – or at least the return of Azeiris to that land - can cause concern and anxiety for those living in the disputed territories.

In what is probably an effort to dispel such doubts, Karabakh's president, Bako Sahakyan, paid visits to the most densely populated areas of Kashatagh and Kalbajar three times in the last few months. During these meetings he regularly promised that the authorities of Karabakh are not going to "bargain away

the destiny of these regions" during negotiations. That seems good enough for people like Marat Mazulyan. The 43-year-old father of 11 is an Armenian refugee who moved to the village of Vaghazin in Kashatagh. He said that he is more concerned with renovating his house and starting a new bee-keeping business rather than whether his current home will be returned to Azerbaijan.

"Five of my children were born here," he said. "I can't go back, and I like it here. They've been talking about the territories for seven years, and so far nothing has happened."

Sevan formula for success



SOUND ADVICE Sargsyan (pictured here, with his nearly complete children's amusement part in Sevan), is very supportive of new entrepreneurs, and always ready to advise them. His formula for success is simple: non-stop working, planning ahead, being honest with partners, and protecting and seeing ideas through. PHOTOS BY NAZIK ARMENAKYAN

Contact the Agriculture Ministry's Support Centers for free farming techniques, seeds, loans, and vet services

- Yerevan (010) 232102**
- Kotayq (0222) 21723**
- Armavir (0237) 62609**
- Ararat (0238) 41193**
- Aragatsohn (0232) 31032**
- Shirak (0312) 70641**
- Lori (0255) 21614**
- Gegharqunik (0264) 32096**
- Tavush (0263) 36137**
- Vayots Dzor (0281) 24637**
- Syuniq (0284) 21035**

Looking for that loan, or other Assistance, to start a business?

The following organizations report they have funding for 2009 and may be able to help

The Small and Medium Sized Entrepreneurship Development National Center
010-58 32 61, 54 16 48

They don't give loans, but offer guarantees to potential business owners through local banks.
Center for Agribusiness and Rural Development
010-54-57-11

Offers low-interest loans to farmers and other agribusiness owners

Agricultural Reform Support Project Implementation Unit State Enterprise
010-29-73-01

Kamurj Foundation for the Development of Micro Entrepreneurship
010-27-86-24; 27-86-25

Offers low interest loans to start small businesses, focusing on women business owners
Ecumenical Church Loan Fund of Armenian Foundation
010-51-71-58; 4-05-18

Offers low-interest loans for small and medium sized businesses



Subject

Outlook

Short Term

Long Term

Government Assistance

Food

With the drop in value of the dram against the dollar, the cost of imported food – especially for staples like sugar, flour and oil – has increased. This will provide increased opportunity for Armenian farmers and food processors, but in the short-term food prices will increase for all Armenians.



Where possible, arranging to buy or barter meat and produce directly from farmers, or farm cooperatives which trade food products amongst each other may be a good strategy. (See Barter, Page 3)

The following organizations will open soup kitchens and other food aid, including:
Armenian Caritas (312) 57201, (312) 57849, (093) 312495
World Vision (010) 749118, (010) 749119;
Mission Armenia (010) 444792, 444793, 444761, 444732
Fund of Armenian Aid (010) 526660, (312) 24061
Armenian Evangelistic Church Fund (010) 263656, (010) 272794

This may provide an opportunity for local farmers to expand production and find new markets.

The donor-funded Federation of Agricultural Associations (FAA) provides villagers with low-cost safe pesticides and fertilizers, seeds. They also help villagers organize to get their produce and farm products to market and offer low-interest farm loans. (010) 778807, 778870

The Center for Agricultural and Rural Development also offers assistance to farmers (010) 430413

In every marz, the Agriculture Ministry has support centers offering advice and information to farmers about how to properly prepare soil, plant and use equipment. They also give loans for livestock, and expanding farm activities (See Page 7 for the support center nearest you).

There is a fund in the state budget for vet services, including vaccinations and medicines for curing sick livestock. The ministry also gives 35,000 AMD (about \$100) to support farmers who live in areas with poor farming conditions. (010) 430413

Employment

With the worldwide economic slowdown, several factories have already closed and unemployment rates are going up. Construction jobs abroad are expected to be harder to find and those that are available at home will pay less. The government's lack of transparency and democracy has also caused at least one major international donor, Millennium Challenge, to halt a road project that could end about 3,000 (See Construction, page 5)

In troubled times, flexibility and innovation is important.

Workers should analyze their skills and consider whether there may be opportunities to partner with other workers with their skills to seek work on specific projects.

Bartering work for necessities may also be an option (See Barter, Page 3).

Learning new skills, particularly in technical areas, will provide new employment opportunities. (See Retrain, Page 2) Difficult times also often open opportunities for small businesses with low-cost operations to grow, more quickly as the economy improves.

The government has established loan and training assistance programs for people who want to start small businesses, though those loans will be harder to get in the short-term, as banks tighten lending requirements. (See Loans, Page 6) The state employment agencies are also offering retraining programs designed to train workers needed in the local job market (See Retrain, Page 2)

Education

Some are expecting the crisis to reduce the number of people going to University and increase the demand on technical schools which teach specific practical skills. Some commercial banks, such as Converse, ACBA-Credit Agricool, and BTA, offer student loans, but with banks tightening their lending practices, these loans will be harder to get.

Times of higher unemployment are traditionally times when people seek to improve their skills or develop new ones (See Retrain, page 2) Technical schools say their graduates that are most in demand now are in the fields of tourism, retail sales management, and there is still a demand for people with specialized construction and engineering skills.

A comprehensive list of two-year technical schools is available at www.edu.am

The state grants scholarships to orphans and children who aren't under parental care, the children of dead military officials, soldiers disabled while serving in the army, students studying subjects targeted by the state as a priority and other financially disadvantaged students (specific criteria can be checked at universities). Some universities also offer scholarships for students showing academic excellence.

Heat and Electricity

Despite a drop in the cost of gas and oil on the International market the cost of gas and electricity increased in Armenia even before the devaluation of the dram. This is unlikely to change significantly.

It is a good time to weatherproof your home. Check the next column for agencies that can offer assistance.

Buy energy efficient light bulbs, which are more expensive at 1,700-5,000 AMD, but will reduce your electricity usage five times.



Homes that use traditional domestic fuels – including waste products – will not be affected. It may be time to look at ways to expand the use of this traditional resource on a larger, cleaner scale in urban areas.

The Armenia Renewable Resources and Energy Efficiency Fund assists poor people and schools to fund heating systems. They pay electric bills for 9,000 families, and gas bills for 8,000 families (010) 588011, 545121. info@r2e2.am, www.r2e2.am
Armenian Caritas's Warm Winter program helps single pensioners pay heating bills (312) 57201, (312) 57849, (093) 312495

The government and private industry are involved in several alternative energy technology programs, including, wind, solar and geo-thermal energy power. In the longer run these may help Armenia reduce its dependence on imported energy, but the anticipated shut down and replacement of the nuclear plant in Metsamor – which generates nearly 40 percent of the country's energy – will be expensive.

Housing

Generally housing is not expected to be a problem for established families. However, with the construction of new homes expected to fall young people with new, growing families may face difficulties.

Families and groups of individuals may have to pool their resources and share apartments even more than in the past.

Though more people are lining up for the Karabakh disputed territories repatriation program – which includes free housing – the government has frozen the program for now and is not currently taking applicants (See Karabakh, Page 7)

Currently there are national government programs only for refugees and people who have lost their houses (such as in the earthquake). Those programs will continue.

Retirement

Traditional retirement programs will remain in place for people over the age of 40 whose employment is registered. The increased cost of goods will hit pensioners hard. The Social Security Ministry reports that 15 percent of retired people are "poor" and 6 percent are "extremely poor."

All pensioners will get an increase of about 15% in 2009. However, in most cases, benefits will still be less than the minimum amount required to provide necessities.

For the foreseeable future, most pensioners will still have to supplement their incomes either with support from families or by working.

Workers under 40 should sign up for a new government matched savings/investment plan slated to be introduced in 2010. Even in difficult times it appears to be a very good deal.