

Introduction

Armenia became one of the first former Soviet republics to end Communist rule following the country's first democratic elections in 1990. While political reforms implemented by the government of former president Levon Ter-Petrossian won Armenia a democratic reputation in the West, Armenia's first post-Communist government had turned increasingly autocratic by the mid-1990s. Although basic civil liberties remained in place (despite occasionally serious violations) and the press remained relatively free, the right of citizens to change their government was severely, at times brutally, restricted. Ter-Petrossian's forced resignation in February 1998 reduced political tensions, even though the ensuing presidential election was again flawed.

The decade-long transition to a market economy has yet to bring material benefits to the majority of Armenians. In 1992 and 1993, Armenia suffered hyperinflation and a tremendous slump in living standards. The Nagorno-Karabakh conflict, and turmoil in the region as a whole, by cutting off traditional trade routes, were among the main factors that strangled the economy. Since 1994, the macroeconomic policy of successive Armenian governments has largely followed the prescriptions of the International Monetary Fund (IMF) and the World Bank. Tight fiscal and monetary policies, backed by Western loans, have stabilized the macroeconomic environment. The economy has grown since 1995, the annual inflation rate has not exceeded single digits since 1998, and most state assets have been privatized. The tightly regulated banking sector is almost fully in private hands, and the country has one of the most liberal trade regimes in the Commonwealth of Independent States (CIS). But recent trends, however positive, have not improved the low living standards of most Armenians. Rampant corruption, the weakness of the rule of law, and the need for government connections all inhibit economic activity. The IMF has repeatedly criticized the slow pace of structural reforms.

The outcome of the May 1999 parliamentary elections largely reflected public opinion—the first time in several years an election outcome had done so. The government of former Prime Minister Vazgen Sarkisian and Speaker of Parliament Karen Demirchian, whose Unity bloc won the polls, enjoyed far greater legitimacy than did previous administrations. Together, Sarkisian and Demirchian limited the sweeping powers vested in President Robert Kocharian by the constitu-

tion. Economic growth slowed in 1999 because of the persisting effects of the Russian economic crisis of August 1998. Analysts agree that single-digit growth rates are insufficient for a quick economic recovery. An eventual peace in Nagorno-Karabakh would clear the way for massive foreign investments in the struggling Armenian economy.

Democratization

POLITICAL PROCESS 5.25/7

1. When did national legislative elections occur? Were they free and fair? How were they judged by domestic and international election monitoring organizations? Who composes the government?

Parliamentary elections for the 131-member National Assembly last occurred on May 31, 1999. Twenty-one blocs and political parties contested 56 proportional representation seats, while over 800 individual candidates competed for 75 seats in single-member districts. No party or bloc was refused registration by the Central Election Commission (CEC). Fifty-two percent of eligible voters participated in the election.

The Organization for Security and Cooperation in Europe (OSCE), which sent a 200-member monitoring mission, characterized the elections as a “relevant step toward [Armenia’s] compliance with OSCE standards” and concluded that they had been “conducted in a generally peaceful and orderly manner which was free of intimidation.” “The Armenian authorities are to be congratulated that freedom of association and assembly were respected, and no cases of political repression were reported to the Mission,” the OSCE observed. But the OSCE also voiced “serious concerns” over inaccurate voter lists and problems with the voting of soldiers.

Voting was marred with widespread confusion as tens of thousands of people were turned away from the polling stations, unable to find their names on the voter lists. Virtually all the parties and blocs, however, condemned the turmoil. There is no evidence to suggest that any of them, however, including the victorious *Miasnutyun* (Unity) bloc, benefited from the inaccuracies.

Unity, formed by Soviet-era Communist chief Karen Demirchian and then-defense minister Vazgen Sarkisian in the run-up to elections, won a landslide victory, capitalizing

on the former's populist appeal. The bloc, comprising Sarkisian's Republican Party and Demirchian's People's Party, won 41.7 percent of the proportional vote and took about half of the single-member districts. Unity won 61 seats in the 131-member parliament and enjoys the backing of some 25 ostensibly independent deputies with strong government ties. Unity reportedly relied heavily on vote buying—widespread during the polls—for its victory. The Communist Party of Armenia finished a distant second with 12 percent of the proportional vote and 9 seats in parliament. Two nationalist groups followed it, each winning eight seats: the Armenian Revolutionary Federation (ARF) and the Right and Accord bloc. Also clearing the five-percent polling hurdle needed to get into parliament under the proportional-representation system were two center-right parties: the obscure Country of Law party and the opposition National Democratic Union (NDU). Each party won six seats. The former interior minister Vano Siradeghian, who leads the formerly governing Armenian Pan-National Movement (APNM) and is currently on trial for murder, was elected to parliament from a single-member district. Most political opponents of the Unity bloc accepted the legitimacy of its victory despite criticisms of how the election was handled. The aftermath of the voting was unusually calm for Armenia.

In early June, defense chief Sarkisian became prime minister and Demirchian became parliament speaker. The Armenian constitution gives sweeping powers to President Robert Kocharian (the former president of the Nagorno-Karabakh Republic), but the elections and subsequent developments effectively curtailed those powers. Prime Minister Sarkisian had become Armenia's most powerful premier since 1991, controlling most of the levers of government and supported by a majority in parliament. (Foreign policy was one of the areas where Kocharian remained in control.) Most members of the Sarkisian government, among them a number of liberal market reformers, had served in successive post-Soviet cabinets.

2. When did Presidential elections occur? Were they free and fair?

Presidential elections last took place on March 16, 1998, following the forced resignation of Ter-Petrosian under pressure from his prime minister Kocharian and the ministers of Defense, National Security, and Interior. The elections included 12 candidates. The front-runners were Acting President Kocharian, running as the incumbent with the support of the security ministries; Demirchian, who had run a factory since his retirement 1990; and Vazgen

Manukian, the head of the National Democratic Union. Kocharian won 38.76 percent of the vote. Demirchian received 30.67 percent. As neither contender won a majority, a run-off election was held on March 30. Acting President Kocharian won this round with 59.48 percent of the vote. Demirchian received 40.52 percent.

Demirchian and his supporters refused to accept defeat, and charged massive vote fraud. The monitoring mission of the OSCE declared that the March 16 election "does not meet OSCE standards." While noting "improvements in some respects" over the serious fraud in Armenia's presidential elections in September 1996, the monitors cited numerous irregularities, including ballot-box stuffing and the presence of unauthorized personnel in polling stations. The monitors also questioned the official second-round turnout figure of 68.7 percent, suggesting that it might have been lower in reality.

3. Is the electoral system multiparty-based? Are there at least two viable political parties functioning at all levels of government?

The electoral system is multi-party based. The opposition is fragmented, with no common agenda. Uneasy relationships among party leaders have prevented the formation of larger parties with shared goals. But leading opposition parties were able to unite under a single candidate to contest the 1996 presidential elections.

Prime Minister Sarkisian's Republican Party of Armenia (RPA), formed in late 1998, has replaced Ter-Petrosian's APNM as the most powerful party in Armenia, though it is not the most popular. The RPA controls parliament and most of the country's local governments. The next local elections are scheduled for October 24, 1999. Parties represented in parliament and in local government include two nationalist groups: the Armenian Revolutionary Federation and the Right and Accord bloc. Both largely support President Kocharian. A party called Country of Law is thought to be close to some governing circles. The most influential opposition parties are the center-right National Democratic Union and the Communist Party.

4. How many parties have been legalized? Have any parties been banned or declared illegal?

More than 80 political parties have been registered in Armenia since 1990. But only a dozen play a role in the nation's political life. *Dashnaksutyun*, the Armenian Revolutionary Federation (ARF), was banned in December 1994 but re-legalized on February 9, 1998 by then-Acting President

Kocharian. In early 1997, 8 party members accused of murder, drug-trafficking, and plotting to overthrow the government were sentenced to prison terms of between 3 and 13 years. Three others were sentenced to death. In December 1997, 30 members and supporters of the ARF, including its leader Vahan Hovannisian, were sentenced to 3 to 7 years in prison after being convicted of calling for a “violent overthrow of the government.” Another defendant received a death sentence on charges of murdering two police officers. The majority of defendants in both trials were set free shortly after Ter-Petrosian’s resignation. No other party has been banned in Armenia since 1990.

5. What proportion of the population belongs to political parties? What proportion of party membership is made up of women?

Less than ten percent of the population belongs to political parties. This figure reflects no significant change from 1996, even though a number of new parties founded in 1998 and 1999 claimed tens of thousands of members. Those claims could not be independently confirmed.

There is no data about the party membership of women. Two women’s groups unsuccessfully ran for parliament in the May 1999 elections. One of them, the *Shamiram* party, won eight seats in the previous elections held in July 1995. According to the Central Election Commission, 13 percent of the candidates running under the proportional-representation system in 1999 and 6.5 percent of the candidates in single-member districts were women. But only four were elected to parliament.

6. What has been the trend of voter turnout at the municipal, provincial, and national levels in recent years? What are the data related to female voter participation?

Voter turnout has varied considerably since independence. It tends to be higher during presidential elections. The figures are as follows: In the May 1990 elections to the Supreme Soviet, approximately 50 percent of the population participated; in the independence referendum of September 21, 1991, 90 percent; in the presidential election of October 16, 1991, 70 percent; in the constitutional referendum and parliamentary elections of July 5, 1995, 55.6 percent; in the presidential elections of September 22, 1996, 58.25 percent; in the second round of the presidential election of March 30, 1998, 64.8 percent; and in the parliamentary elections of May 31, 1999, 52 percent. Though there are no official figures related to female voter participation, women have visually been no less active than men in going to polls.

CIVIL SOCIETY 3.5/7

1. How many nongovernmental organizations have come into existence since 1988? What is the number of charitable/nonprofit organizations? Are there locally led efforts to increase philanthropy and volunteerism? What proportion of the population is active in private voluntary activity (from polling data)? What are some of the major women’s nongovernmental organizations and what is the size of their membership?

There are 1,704 NGOs currently registered in Armenia. Just over one-third of them operate in practice. Approximately 90 of these groups claim to engage in charitable work. The largest such organizations are affiliated with the International Red Cross, the Armenian Church, the ARF, and other groups with Diaspora ties. There is little locally-led effort to increase philanthropy and volunteerism. Most Armenians are far too poor to engage in such activities. The government occasionally initiates fund-raising telethons, mainly for various construction projects such as a modern highway between Armenia and Nagorno-Karabakh and a new stadium in Yerevan. Wealthy individuals sometimes engage in philanthropy, especially to help their native city or village. Extended family networks and patronage links often serve a similar function.

There are more than 40 registered women’s organizations, but only half of them are active to varying degrees. The Republican Council of Women (RCW) is the biggest such organization, and has a stated aim of protecting a wide range of women’s interests and promoting the representation of women in government. The RCW claims to have thousands of members in 78 branches scattered all over Armenia. The RCW is a leading member of a loose grouping of 15 women’s NGOs.

2. What is the legal and regulatory environment for NGOs (i.e., ease of registration, legal rights, government taxation, procurement, and access-to-information issues)? To what extent is NGO activism focused on improving the legal and regulatory environment?

NGOs must register with the Ministry of Justice in order to operate. The large number of NGOs indicates that registration is fairly easy. However, registration delays have been used in the past to harass some NGOs, particularly those defending human rights. Office rent is the main financial burden of NGOs, since most own no real property. Those NGOs that rent state-owned premises in central Yerevan at

largely symbolic prices could be financially vulnerable to government decisions to sell or lease the premises to the highest bidder. There are no laws in Armenia regulating access-to-information.

NGOs have not been particularly active in lobbying the government for changes, but have on occasion acted in the face of unacceptable government conduct. Many NGOs have advocated passage of specific laws and legislative initiatives but have been unable to mount successful lobbying efforts. For example, some NGOs representing refugees from Azerbaijan have long been pushing for legislation to grant relief aid to refugees naturalized in Armenia, but no such law has been adopted.

3. What is the organizational capacity of NGOs? Do management structures clearly delineate authority and responsibility? Is information available on NGO management issues in the native language? Is there a core of experienced practitioners/trainers to serve as consultants or mentors to less-developed organizations?

Again, more than 1,700 NGOs exist in Armenia. Organizational and managerial capacity varies dramatically among them. Most are too small to delineate functions. Generally a founder sets an NGO's agenda and leads fundraising efforts. The Armenian Assembly of America maintains a well-equipped office in Yerevan and operates an NGO training center that provides assistance and information in Armenian, Russian, and English on management and funding issues. However, it cannot meet the needs of 1,700 organizations. Organizations that rely on Western grants generally receive better training and have greater access to information regarding management issues.

4. Are NGOs financially viable? What is their tax status? Are they obliged and do they typically disclose revenue sources? Do government procurement opportunities exist for private, not-for-profit providers of services? Are NGOs able to earn income or collect cost-recovery fees?

NGOs are not financially viable. They are mostly dependent on donations from wealthy domestic sponsors and grants from a few large Western donors. Western donations are typically channeled into activities related to human rights, environmental protection, and the development of civil society.

Not-for-profit organizations are not liable for profit taxes but are subject to taxation on property, vehicles, and employee incomes. NGOs are obliged to disclose revenue

sources in order to establish tax liability. Procurement opportunities exist, but government procurement is an extremely murky business, and it is difficult to determine what factors influence the awarding of government contracts. NGOs are allowed to collect cost-recovery fees and earn income by launching their own enterprises or by other means. But they can make no profits.

5. Are there free trade unions? How many workers and what proportion of the workforce belong to these unions? Is the number of workers belonging to trade unions growing or decreasing? What is the numerical/proportional membership of farmer's groups, small business associations, etc.?

Article 25 of the 1995 constitution promises freedom of association, including the "right to form or join trade unions." Most trade unions are holdovers from the Soviet period, and operate under the umbrella of the Soviet-era Confederation of Labor Unions (CLU). Some new unions have been created since a January 1993 presidential decree that prohibited government retaliation in the event of a strike. The Federation of Independent Labor Unions was founded in December 1997 to compete with the Confederation.

The CLU claims to have roughly 700,000 members, or 58 percent of the country's workforce. Because of high unemployment, the number of workers who belong to trade unions has been decreasing steadily. Strikes and other trade union actions in the private sector, which employs the majority of the workforce, are extremely rare, with workers fearful of losing their jobs. There are no effective mechanisms for protecting employee rights in the private sector. There have been strikes in the public sector over wage arrears and court actions taken against arbitrary dismissals. There is no specific law on trade unions.

Since the early 1990s, two "alternative" unions have been established: the Federation of Independent Labor Unions and the Miabanutyun (Accord) Labor Union. Both have proved to be moribund structures, showing no visible signs of activity over the past few years. Information about their membership is not available.

Three farmers' groups are registered: the Assistance to Farms Union, the Association of Farmers of Armenia, and the Agrarian-Peasants' Union. Membership figures are unavailable. A small number of business associations exist in Armenia, the most active of which are craftsmen's associations such as those uniting construction specialists, jewelers, and traders. The Union of Armenian Traders was in the news early in 1999 because of its court action against the

government over the introduction of cash registers in retail. The group claims to represent hundreds of shop owners. The largest business association is the Union of Industrialists and Entrepreneurs. It comprises many of Armenia's wealthy individuals, owners of privatized enterprises, and directors of large state-owned factories. The Union was set up in 1995 by Ter-Petrosian as an unofficial business component of his Republic bloc and it continued activities after his forced resignation in February 1998. Membership figures are unavailable

6. What forms of interest group participation in politics are legal? What types of interest groups are active in the political and policy process?

Armenian law requires that all NGOs register as political, public, or religious in nature. Political organizations generally refer to political parties. Public organizations form the bulk of registered NGOs. Religious organizations are the smallest group. Public and religious organizations are not permitted to engage in political activity, including lobbying. Lobbying is not regulated or defined by the law.

Interest groups active in the policy process are frequently associated with political parties and movements either in the government or allied with particular ministries. They often lack a clear-cut organizational structure and act behind the scenes. Business groups, often referred to as "clans," further their economic interests by exploiting extensive government connections. The primary reason an unusually large number of businessmen stood in the May 1999 elections was to gain better access to government. The closest thing to a "classical" interest group is the veteran's union *Yerkrapah*. Formed in 1993 to tackle the social and economic problems of veterans of the Karabakh War, *Yerkrapah* became an important base of support for the slain prime minister Sarkisian.

7. How is the not-for-profit/NGO sector perceived by the public and government officials? What is the nature of media coverage of NGOs? To what extent do government officials engage with NGOs? Is the government receptive to NGO policy advocacy?

Public attitudes towards the NGO sector are generally positive, but often tinged with suspicion of foreigners' motives. Media coverage of NGOs is again usually positive, depending on the types of activities in which the NGO is engaged and the nature of its political connections. In most cases, the press has readily covered NGO protests over controversial government actions. Most NGOs have described the attitude of government officials as indifferent.

The government has been frequently accused of neglecting the views and wishes of Armenian citizens. Many NGOs complain about a lack of influence on public policy, stemming from the government's indifference to their policy recommendations. Lack of public funds does not bode well for the implementation of programs advocated by NGOs.

INDEPENDENT MEDIA 4.75/7

1. Are there legal protections for press freedom?

Article 24 of the Armenian constitution guarantees to everyone "the right to freedom of speech, including, independent of state borders, the right to seek, receive and disseminate information and ideas by any means of information communication." But freedom of speech can be restricted "by law, if necessary, for the protection of state and public security, public order, health and morality, and the rights, freedoms, honor and reputation of others." This provision may run counter to international human rights treaties, signed by Armenia, that protect press freedom. Under Armenian law, international treaties take precedence over national laws.

The constitution and the 1991 Law on Press and Mass Media have proved inadequate for warding off state interference in Armenian media. But even these flawed legal tools often were not enforced when media freedom was in jeopardy. The most blatant violation of Armenian law came in December 1994 when authorities closed a dozen newspapers affiliated with the opposition ARF. The closings were clearly in violation of the media law that stipulates that only the court can suspend media functions. It has been the most serious infringement on press freedom in post-Communist Armenia to date.

Following the party's re-legalization in February 1998, ARF papers were again allowed to publish. But despite the improved political situation, the Armenian media still face many problems. Journalists often exercise self-censorship when covering security agencies. Direct threats and intimidation by government officials are not common, but the authorities have other, mostly economic, means to restrict freedom of speech. With access to government information not properly regulated by law, non-state-run media are often discriminated against in gathering news. A journalist's right to protect his or her sources is not absolute under the media law, which is widely seen as outdated. A new media bill, jointly drafted in 1997 by a local media-watchdog agency

and a group of lawyers, has yet to be debated in parliament. According to the Committee to Protect Journalists (CPJ), the new bill also includes some restrictive clauses. The CPJ estimated that, as of late 1998, there were over 900 media outlets officially registered with the Armenian justice ministry. But very few of those outlets—about 70 newspapers, 20 national and local TV stations, and five FM stations—were regularly active.

2. Are there legal penalties for libeling officials? Are there legal penalties for “irresponsible” journalism? Have these laws been enforced to harass journalists?

Article 208 of the Soviet-era criminal code (still in use in Armenia after several emendations) stipulates that publicly insulting a “government official performing his/her duties” is a crime punishable by up to one year in prison. The code also provides criminal liability for defamation of character. If defamation is made in writing or through broadcasting it can lead to a three-year imprisonment. Defamation does not have to be malicious and deliberate to be deemed a crime.

The Law on Press and Mass Media permits libel suits against journalists and media organizations. Advocating “war, violence, ethnic and religious hostility, prostitution, drug abuse, or other criminal acts” and publishing “state secrets,” “false and unverified reports,” and the details of citizens’ private lives without permission is illegal. A first offense carries a three-month suspension of license to publish. A second offense warrants a six-month suspension.

On June 8, 1999, authorities effectively shut down the daily after it lost two libel cases brought by National Security Minister Serge Sarkisian and the Mika-Armenia trading company. *Oragir* had reported widespread corruption in Sarkisian’s agency and implicated him in shady dealings with Mika-Armenia. The paper had its computers confiscated and its bank accounts frozen for refusing to print a retraction and pay a \$25,000 fine to Mika-Armenia. It resumed publication in July under a different name. Also included in the criminal case against *Oragir*’s editor Pashinian were two defamation suits, one filed by a controversial university professor and the other by the wife of a prominent politician. In its 1998 world report, the CPJ noted a “decline in defamation suits against journalists” in Armenia. That trend continued into 1999 despite the criminal proceedings against Pashinian.

3. What proportion of media is privatized? What are the major private newspapers, television stations, and radio stations?

The overwhelming majority of media organizations in Armenia are not owned or funded by the state. There are dozens of private television stations across the country. The largest of them are A1-Plus, Ar, Armenia TV, and Ays in Yerevan, and Shant in the country’s second-biggest city, Gyumri. They have all sprung up since 1997. A1-Plus is known for its objective and unbiased news reporting, while Ar and Armenia TV attract viewers with talk shows and entertainment programs. The state-run Armenian National Television remains the only media outlet accessible everywhere in Armenia.

There are five independent FM radio stations based in Yerevan and one such station in Gyumri. Their programming is largely restricted to music and brief newscasts. Daily programs of Radio Free Europe/Radio Liberty and the Voice of America are retransmitted by state radio.

Roughly ten percent of newspapers are owned by the state, including local government bodies. More precise figures are unreliable, as many papers publish irregularly. Of eight national dailies, only two are state-owned. The six others are either independent or openly affiliated with political parties. The papers offer a wide variety of opinions. The *Yerkir* and *Hayots Ashkhar* dailies, both controlled by the ARF, tend to cover events from a leftist and somewhat nationalist perspective. The centrist *Azg* is close to another party with Diaspora connections. *Aravot* and *Haykakan Zhamanak* (former *Oragir*) have a liberal and usually pro-Western orientation. In the last few years there has been a decline of public interest in overtly partisan newspapers. For instance, *Yerkir* replaced almost the whole of its staff in early 1999 with more liberal-minded reporters, in an attempt to boost circulation.

4. Are the private media financially viable?

Print media in Armenia are for the most part not profitable and are financially dependent on sponsors and/or patrons who are often intent on promoting their own political or economic interests. Low living standards limit newspaper sales: In a country of more than 3 million inhabitants, the average number of a daily’s per-issue copies is a paltry 5000. The small circulation rules out major revenues from advertising. The fact that many papers are dependent on subsidies instead of on earned income hampers the quality of news reporting. The media’s difficult financial situation makes them vulnerable to manipulation by government officials, parties, and wealthy individuals. A few non-political publications do seem profit-

able. Broadcast media are financially more viable thanks to larger audiences. Television channels also cash in on campaign advertisements in the run-up to elections.

5. Are the media editorially independent? Are the media's news gathering functions affected by interference from government or private owners?

Editorial independence varies among different media organizations. In most cases, the content of news coverage rarely opposes the wishes of media owners or patrons. This fact encourages a tendency towards partisanship. Newspapers generally will not discredit or criticize their owners, although they are free to comment on political or economic developments. Journalists working for a paper controlled by a party are usually not affiliated with the party. The government hampers media news gathering by continuing to withhold important information from the public. Many important facts come to light through information leaks. Now that the Armenian government is split between rival factions keen to discredit one another, incidents of leaked information have increased in frequency.

6. Is the distribution system for newspapers privately or governmentally controlled?

A state agency, *Haymamul*, distributes over 85 percent of the nation's publications and controls most of the kiosks. There were reported cases in the mid-1990s of Haymamul refusing to sell issues of newspapers that were critical of the authorities. Almost all of the country's major newspapers staged a one-day strike on December 3, 1997 to protest inefficient and expensive newspaper distribution.

7. What proportion of the population is connected to the Internet? Are there any restrictions on Internet access to private citizens?

Poverty and inadequate telephone communications place the Internet beyond the reach of most Armenians. Only a small percentage of the population has Internet access, generally through employment at an NGO with an office account or at the universities. There are at least three Internet service providers in Armenia: Arminco, Infocom, and the Yerevan Physics Institute. They are all based in Yerevan and rely on the ArmenTel telecommunications monopoly for satellite connection. The providers claim that the 15-year legal monopoly on long-distance service granted to ArmenTel in March 1998 during its takeover by the Greek firm OTE will mean high prices and slow

development of the Internet.

Under a funding program sponsored by NATO and intended to facilitate Internet access in the CIS, a conference was held in Yerevan in May 1997 to discuss Internet development in Armenia. The Eurasia Foundation has given almost \$70,000 in grants since 1995 to fund Internet-related activities. In addition, the Armenian Internet User's Group, a small but active Yerevan-based NGO, is promoting Internet use and access. There are no formal restrictions on Internet access for private citizens.

8. What are the major press and journalists' associations? What proportion of their membership is made up of women?

There are several press associations in Armenia, but none represents the majority of local journalists. The Journalists' Union of Armenia, with hundreds of mostly elderly members, is a holdover from the Soviet period. The press corps in post-Soviet Armenia is much younger and many of its members came to journalism from other professions. The Union's only visible activity in recent years has been to arrange the news briefings of politicians and well-known public figures.

More than a dozen local journalists are grouped around the National Press Club whose activities have also amounted to organizing news conferences. Another organization, the Yerevan Press Club (YPC), has acted more like a media watchdog, monitoring ongoing trends, examining media legislation, and occasionally holding seminars. The YPC relies heavily on Western grants. It was co-drafter of a new law on the media pending discussion in parliament. There is generally little coordination among the various press associations, even though they have issued joint statements in the past in the face of unacceptable government actions. There is no code of ethics binding the Armenian journalist community. Based on visual observation, women make up at least half (if not more) of the Armenian press corps. For instance, young females outnumber males in the news-reporting teams of state television and the private A1-Plus channel.

9. What has been the trend in press freedom as measured by Freedom House's *Survey of Press Freedom* ? Freedom House's *Survey of Press Freedom* rated Armenia as "Partly Free" from 1994 through 1999.

GOVERNANCE AND
PUBLIC ADMINISTRATION 4.50/7

1. Is the legislature the effective rule-making institution?

Only parliament has the power to pass laws. Presidential decrees, regional governor decrees, and some decisions by local executive committees, however, have the power of law. The 1995 constitution strongly shifts power to the president at the expense of the parliament. Parliaments elected since the end of Communist rule in 1990 have all been loyal to the head of state. However, Ter-Petrossian's resignation in February 1998 followed mass defections of deputies from his Republic bloc, which changed overnight the balance of forces in favor of his defiant ministers. President Kocharian will find it difficult to push legislative initiatives through parliament if they go against the government's wishes.

2. Is substantial power decentralized to subnational levels of government? What specific authority do subnational levels have?

Power in Armenia is highly centralized in the office of the president. Provincial governors and the mayor of Yerevan, whose rank is equivalent to a provincial governor, are appointed by and accountable to the president rather than the local population or the parliament. Each of the ten provinces is divided into urban and rural communities (e. g., villages, towns, cities, city districts) governed by locally-elected councils of elders and a locally-elected district administrator, who may organize his or her own staff. The prime minister can remove district administrators upon the recommendation of the provincial governor. Under the constitution, provincial governors act as representatives of the central government and are responsible for implementing its policy. Community administrations' dependence on the provincial and central authorities limits their impact on local affairs.

3. Are subnational officials chosen in free and fair elections?

In each of the ten provinces, community administrations are elected by secret ballot. Voters elect a 5-to-15-member council of elders, and a district administrator or city/village mayor for a term of 3 years. The council of elders approves the district budget, supervises its implementation, and assesses local taxes and fees.

4. Do the executive and legislative bodies operate openly and with transparency? Is draft legislation easily accessible to the media and the public?

Parliamentary debates in Yerevan are widely publicized in the national press. Local government does not function in a transparent way. Draft legislation is generally available to the media and public, but there have been instances of some bills being introduced with little prior public notice. For example, the defense ministry has frequently unexpectedly initiated amendments to the law on the military draft. They have been quickly approved by parliament without debate. Also, local business people complain about what they see as frequent and abrupt changes in economic legislation.

5. Do municipal governments have sufficient revenues to carry out their duties? Do municipal governments have control of their own local budgets? Do they raise revenues autonomously or from the central state budget?

Municipal governments have not been immune to the fiscal crisis that has gripped Armenia since independence. All taxation is controlled by the central government. Local governments make budget requests to the ministry of finance, which forwards them to the president after review. Municipalities are technically free to decide on their spending priorities. But the scarcity of money leaves them with little choice. Taxes on land and property, fixed "state tariffs," and 15 percent of income and profit taxes collected in a community go directly to its budget. The United Nations Human Development Report for 1998 said the communities' "own revenues" make up no more than 30 percent of their budgets. The bulk of local funds comes from the central government in the form of allocations given in the yearly budgets.

6. Do the elected local leaders and local civil servants know how to manage municipal governments effectively?

There are about 11,000 local civil servants in Armenia. Those with technical specialization are often very competent. But, the 1998 UN report noted, the fact that two-thirds of the civil servants joined local governments during the Soviet era means that "they are not competent enough on the new requirements to local governance." The remaining third who became civil servants after 1990 also need to "enhance qualifications" and be retrained, the report found.

7. When did the constitutional/legislative changes on local power come into effect? Has there been reform of the civil service code/system? Are local civil servants employees of the local or central government?

The constitution was officially adopted on July 7, 1995. Actual changes to the organization and election of local powers were delayed pending the passage of the appropriate legislation by parliament. This was accomplished before the November 1996 local elections. There have been numerous calls and pledges by politicians to enact a civil-service law that would make civil servants independent of government pressure. The issue comes to light before elections but dies down afterward. As of mid-1999, no such bill was on the parliament agenda. With few safeguards against arbitrary sacking, civil servants are often forced to side with the ruling regime in political battles. There is no clear delineation in Armenia between employees of the local and central government.

Rule of Law

CONSTITUTIONAL, LEGISLATIVE, AND JUDICIAL FRAMEWORK 5.00/7

1. Is there a post-Communist constitution? How does the judicial system interpret and enforce the constitution? Are there specific examples of judicial enforcement of the constitution in the last year?

On July 5, 1995 Armenia adopted a new constitution that was ratified by referendum and strongly criticized by opposition groups for its shift of power to the presidency at the expense of the parliament. The president is directly elected and may not serve more than two consecutive terms. He may dissolve parliament, appoint and remove the prime minister, appoint four of the nine members and the president of the Constitutional Court and all of the Court of Appeals, appoint or remove any judge serving in any court other than the Constitutional Court, and appoint and remove the prosecutor-general and any other prosecutor. He may also declare martial law. Growing calls for constitutional reform led President Kocharian to set up a commission to develop proposals on how to curtail the sweeping presidential powers. The commission was radically reshuffled in the summer of 1999, but it was already clear that it would propose only cosmetic amendments to the basic law.

The Constitutional Court is the main body charged with interpreting and enforcing the basic law. Under a legal provision that took effect with the court's formation in 1995, only the president of the republic, one third of parliament's deputies, and election candidates can appeal to the court. This fact renders the court virtually inaccessible to ordinary Armenians. The Constitutional Court challenged the executive for the first time in January 1999 when it ruled that granting the Greek-owned ArmenTel company a 15-year monopoly on the Armenian telecommunications market was unconstitutional. At the same time, the court rejected opposition demands to invalidate the terms of ArmenTel's takeover in March 1998 by Greece's OTE firm.

2. Does the constitutional framework provide for human rights? Do the human rights include business and property rights?

Chapter Two of the 1995 constitution guarantees a full range of civil and political rights, including the rights to life, confidentiality, privacy, freedom of movement and residence, freedom of emigration, freedom of speech and thought, freedom of association, choice of employment, and the right to vote. In addition, citizens are guaranteed health care, education, and an adequate standard of living.

The right to own and inherit property is guaranteed in Article 28. The state may seize private property "only under exceptional circumstances, with due process of law, and with prior equivalent compensation." Non-citizens may not own land except under special circumstances. Intellectual property rights are guaranteed in Article 36.

3. Has there been basic reform of the criminal code/criminal law? Who authorizes searches and issues warrants? Are suspects and prisoners beaten or abused? Are there excessive delays in the criminal justice system?

The 1995 constitution guarantees the presumption of innocence and a person's right not to incriminate himself, as well as a "public hearing by a fair and impartial court." Much of the Soviet-era criminal code remains in effect. No death sentence has been carried out since 1990, in line with Armenia's obligations to the Council of Europe.

Police can detain a person and keep them in custody for up to 96 hours, but police need a court decision to turn detention into arrest. Article 18 of the constitution reads that a person "can be arrested [pending trial] only by the decision of the court." Only a prosecutor can au-

thorize searches, a legal provision frequently violated in practice.

The police frequently abuse suspects and prisoners, and there have been instances of prisoners dying due to mistreatment while in custody. Mistreatment in custody loomed large in the U.S. State Department's 1998 human rights report on Armenia. According to official figures, the total prison population in Armenia is close to 6,000. The Association to Protect Prisoners, a local NGO, estimates that around 500 of them suffer from tuberculosis, the main cause of prison deaths in 1998. According to the office of the prosecutor-general, 56 inmates died in 1995; 60 in 1996; and 14 in 1997. No data were released on 1998. The deaths were attributed to harsh prison conditions and disease. Six of the 14 deaths in 1997 were attributed to pneumonia.

Excessive delays in the criminal justice system are usually the result of protracted pre-trial arrests and sometimes of the trials themselves. In one such example, 31 members and supporters of the ARF had spent 2.5 years in jail before the investigation into their case and their subsequent trial had concluded in December 1997.

4. Do most judges rule fairly and impartially? How many remain from the Communist era?

Impartiality and fairness of judges varies dramatically depending on the nature of the case being tried. Armenian courts are still not perceived by the public to be independent and free of corruption. Sensitive political cases are almost never resolved against the state. The 1995 constitution introduced a new judicial system, which took effect on January 12, 1999, when 123 judges of lower-level courts were officially sworn in. President Kocharian selected the judges from a pool of more than 400 candidates who passed qualification examinations at the ministry of justice. "Courts of first instance" and the higher "review courts" thus replaced the Soviet-era "people's courts." The Court of Appeals replaced the Supreme Court. The majority of serving judges remain from the Communist era, though no specific figures are available from the ministry of justice or from the Union of Lawyers.

5. Are the courts free of political control and influence? Are the courts linked directly to the Ministry of Justice or any other executive body?

The Armenian constitution clearly fails to provide for an independent judiciary, with the overwhelming majority of judges subject to presidential appointment for life tenure. The president can remove all judges other than members of the Con-

stitutional Court practically at whim. Not surprisingly, Armenian judges have rarely acted against the executive's wishes. It is not clear yet whether the expected constitutional amendments will extend to the judiciary as well.

The ministry of justice has a department dealing with courts with no clearly defined functions. Some lawyers view it as an instrument of government pressure on the judiciary. Ministry officials repeatedly denied this assertion. Besides, Article 95 of the constitution creates a body called the Council of Justice, which is chaired by the president and includes two legal scholars, nine judges, and three prosecutors, all of whom are appointed by the president. The Council acts as a supervisory and disciplinary body for the judiciary. It prepares lists of judges and prosecutors to be considered for appointments, promotions, or dismissals.

6. What proportion of lawyers are in private practice? How does this compare with previous years? How many lawyers are produced by the country's system of higher education? What proportion of lawyers and judges are women?

Figures are not available about the percentage of lawyers who remain in state employ. As the number of civil litigations is rising, more and more lawyers appear to be in private practice. The Law Department of Yerevan State University produces up to 50 graduates each year. The American University of Armenia (AUA) has a law school that offers graduate studies in English and under an American curriculum. Some two dozen students are conferred a Master's Degree in Law by the AUA each year. There is also a myriad of private universities with law programs. Their standards of education are believed to be low.

There are three lawyers' associations in Armenia that are authorized to issue licenses for legal practice. The biggest, the Union of Lawyers of the Republic of Armenia, has about 300 members. Fifty-four percent of them are women. Twenty-nine out of the 123 judges who took oath in January 1999 were women. One of the nine members of the Constitutional Court is a woman.

7. Does the state provide public defenders?

The 1995 constitution guarantees defendants legal representation by court-appointed attorneys. This guarantee is usually honored.

8. Are there effective anti-bias/discrimination laws, including protection of ethnic minority rights?

Article 37 of the 1995 constitution states, "Citizens belonging to national minorities are entitled to the preservation of their traditions and development of their language and culture." Few ethnic minorities remain in Armenia. Although no census has been held since 1989, it is estimated that over 95 percent of the population in Armenia is ethnic Armenian and 2 percent Kurdish. There are also small Russian, Ukrainian, Assyrian, and Greek communities. In September 1997, parliament amended the Law on Religious Organizations to raise the requirement for registration as a minority from 50 members to 200. Religious organizations must now submit a list of all their members before being allowed to operate legally.

9. Are judicial decisions effectively enforced?

The ministry of justice has a division in charge of enforcing judicial decisions. Court rulings are usually enforced effectively, even when a verdict goes against the government, which is rare.

CORRUPTION 5.75/7

1. What is the magnitude of official corruption in the civil service? Must an average citizen pay a bribe to a bureaucrat in order to receive a service? What services are subject to bribe requests – for example, university entrance, hospital admission, telephone installation, obtaining a license to operate a business, applying for a passport or other official documents? What is the average salary of civil servants at various levels?

Civil service corruption is widespread. Citizens must pay bribes frequently for various kinds of services. An unpublished U.S. government report compiled in the summer of 1996 detailed instances of corrupt practices by almost every Armenian government agency. Most of these practices relate to the requirement of bribes for the performance of official duties. Other corrupt practices concern the illegal importation of gasoline, diesel fuel, cigarettes, and various luxury goods and foodstuffs.

Paying bribes for enrolling in prestigious programs of state universities is still common. It is a phenomenon that dates back to the Soviet period. Some institutions, such as the American University of Armenia, have managed to remain relatively free of such practices. Corruption in the health care system has declined since the early 1990s, as most medical services in Armenia are no longer free of charge. Kickbacks for telephone installations virtually disappeared with the privatization of the

national telecommunications company. Some forms of business still require a government license, which is frequently obtained with a bribe. The bribing of customs and tax officials is routine.

The average monthly salary in the public sector is approximately \$20. It is much higher in the military. The president of the republic, ministers, deputy ministers and judges are the highest paid civil servants in Armenia, with an average salary of \$360.

2. Do top policy makers (the president, ministers, vice ministers, top court justices, and heads of agencies and commissions) have direct ties to businesses? What are the legal and ethical standards for boundaries between public and private sector activity? Are they observed in practice?

Many senior government officials, including ministers, have direct ties with business, which usually take two forms. First, covert ownership of a company or a shop. (Covert means that a business is formally registered as property of the friends or relatives of an official.) The second form happens when an influential official gives privileged treatment to a private enterprise in return for sharing its revenues. In one example, a trade company that had a virtual monopoly on lucrative imports of gasoline to Armenia from late 1997 to mid-1999 reportedly operated under the tutelage of National Security Minister Serge Sarkisian. Former Interior Minister Vano Siradeghia is believed to have built a huge personal fortune while in power from 1992 to 1996.

Armenian law does not provide for clear boundaries between public- and private-sector activity. The law only states that a civil servant can not hold any other post in the private sector. No written code of ethics regulates the behavior of government officials.

3. Do laws requiring financial disclosure and disallowing conflict of interest exist? Have publicized anticorruption cases been pursued? To what conclusion? Are there laws against racketeering? Do executive and legislative bodies operate under audit and investigative rules?

Armenian law does not currently require financial disclosure by holders of public office, and there are no specific prohibitions against conflict of interest. High-ranking officials are rarely prosecuted for corruption. A former minister of light industry, Rudolf Teymurazian, is the most senior official to have gone to jail for embezzlement to date. He was sentenced to 7 years in prison in late 1998, after a court found him guilty of mis-

appropriating \$600,000 from a \$4.5 million Chinese loan extended to Armenia in 1992. Article 96 of the Armenian criminal code defines racketeering as a “demand to hand over property or rights on property with a threat to use violence against...an individual,” and can lead to up to 12 years in prison.

The Armenian parliament has an Oversight Chamber that is supposed to audit the government’s revenue collection and expenditures, and assess their compliance with budget targets. The Chamber is also charged with evaluating the government’s borrowing and privatization policies. In its annual reports submitted to lawmakers, the body has frequently criticized the executive’s handling of public finances. But it lacks leverage to have a major impact on policy. The ministry of finance has a department auditing all government agencies. The department is far more powerful.

U.S. assistance in energy sector privatization has helped incorporate some anticorruption elements. A computerized system for electric metering and billing reduced the system’s previous vulnerability to bribes and tampering.

4. Have there been public opinion surveys of perception of public sector corruption conducted with the support of reputable monitoring organizations? What are the principle findings and year-to-year trends?

Popular perception of corruption is usually gauged by opinion polls conducted in the run-up to nationwide elections. According to most polls, the public expects elected officials to combat corruption. The continuing high level of corruption and its strong disapproval by ordinary Armenians means that corruption is a major feature of the often populist rhetoric of local politicians.

5. What major anticorruption initiatives have been implemented? How often are anticorruption laws and decrees adopted? Have leading government officials at the national and local levels been investigated and prosecuted in the past year? Have such prosecutions been conducted without prejudice or have they targeted political opponents?

As prime minister, Kocharian made anticorruption initiatives a central theme of his policies. During his successful presidential campaign in March 1998, he indicated that he intended to pursue similar policies as president. Hence, there were popular expectations of a wave of corruption prosecutions of officials from the Ter-Petrosian regime. This expectation was followed by widespread disillusionment, as it became clear that no major shake-up of the government was on the horizon, let

alone a crackdown on corruption. Prime Minister Sarkisian vowed to “strengthen the discipline” in his government shortly after taking office in June 1999.

Ashot Bleyan, a former education minister in the Ter-Petrosian administration, was arrested in May 1999 on charges of embezzling \$120,000 in state funds meant for the publication of school textbooks. Bleyan is head of the Nor Ughi (New Path) Party, and placed last among the 12 candidates for the March 1998 presidential elections. As of mid-1999, he was in custody pending trial. Members of Bleyan’s party and politicians close to Ter-Petrosian condemned his prosecution as politically motivated. Bleyan’s anti-Kocharian rhetoric, his alleged mistreatment in custody, and other apparent violations of due process, will give a political dimension to his subsequent trial.

6. Is there growing public intolerance of official corruption as measured in polls? Are there effective anti-corruption public education efforts?

The considerable public anger with official corruption, reflected by pre-election opinion polls, is believed to be responsible for a growing disbelief in government and politicians. Voter cynicism and apathy have been two of its manifestations. At the same time, poverty forces many Armenians to vote for individuals with dubious reputations in exchange for money. Sporadic and ineffective government efforts to fight corruption have never involved public education.

7. How do major international corruption-ranking organizations like Transparency International rate this country?

The 1999 Transparency International Corruption Perceptions Index (CPI) ranked Armenia 80th of 99 countries surveyed, with a CPI score of 2.5 (0 representing most corrupt and 10 least corrupt).

Economic Liberalization

PRIVATIZATION 3.25/7

1. What percentage of the GDP comes from private ownership? What percentage of the labor force is employed in the private sector? How large is the informal sector of the economy?

According to the government, the private sector produced approximately 80 percent of Armenia's GDP during the first nine months of 1999. As of mid-1999, the private sector employed over two thirds of the labor force. The informal economy, driven by private enterprises and business people, is huge, though there are no precise figures as to its size. Many economists think that that it may be almost equal in size to the formal economy.

2. What major privatization legislation has been passed? What were its substantive features?

In 1991, Armenia introduced a comprehensive land privatization program, as established in the Privatization Law adopted in February 1991 and the Privatization and Denationalization Law of July 1992. A Housing Privatization law took effect on September 1, 1993. The term of this law was extended to December 31, 1996 due to slow progress. In May 1995, parliament passed legislation clarifying collateral requirements and bankruptcy. The Ministry of Privatization was created in 1996 with exclusive authority over the sale of various state enterprises.

A massive privatization got underway in 1995 with a distribution of vouchers to every Armenian citizen. With a face value of \$46 but with a lower market price, the vouchers were the principal form of payment for thousands of state enterprises sold off at the time. By the end of 1997, the government of then-Prime Minister Kocharian abandoned the voucher privatization, opting for a new strategy of sell-offs through money auctions. The Kocharian administration pushed appropriate amendments in the privatization law through parliament in an effort to avoid issuing more privatization certificates, as the previous cabinet had promised to do. The voucher privatization was widely criticized for generating ridiculously low revenues for the state budget.

The total amount of government revenues from privatization reached \$240 million in October 1999, according to the ministry of privatization. Only half of that sum was paid in cash; the lion's share came from the sell-offs of Armenian enterprises to foreign investors through international tenders. The biggest deal so far was sealed in early March 1998 with the sale of 90 percent of the equity in ArmenTel, the Armenian telecommunications firm that holds a legal monopoly on Armenian long-distance service, to the state-controlled Greek Telecommunications Organization (OTE). OTE paid \$142.5 million, assumed ArmenTel's \$46.7 million debt, and promised to invest \$300 million in modernizing Armenian telecommunications over the next

decade. OTE also received exclusive rights to the market for fixed and mobile telecommunications services in Armenia for at least 15 years. Trans-World Telecommunications, a U.S. firm that owned 49 percent of ArmenTel, received \$62 million from the sale and surrendered all of its shares.

The privatization process slowed considerably in 1998, as the state found it hard to attract buyers for those mostly large and medium-sized enterprises that remain in its control. Out of 480 such enterprises put up for sale, only one-third were privatized. The picture was similar in 1999. The reason: most attractive businesses had already been sold.

3. What proportion of agriculture, housing and land, industry, and business and services is in private hands?

Agriculture: Almost all of the 800 former state and collective farms have been divided, with 75,000 new private farms created. Private farms produce approximately 95 percent of total agricultural output.

Housing and land: 87 percent of agricultural land has been privatized with freely transferable land titles. Approximately 80 percent of the housing stock is in private hands.

Business and Services: Approximately 83 percent (1,500) of medium- and large-sized enterprises and 87 percent (6800) of small businesses were privatized through mid-1999, according to official figures. However, lawsuits were pending against owners of 900 privatized small businesses for their failure to pay for the takeover.

4. What has been the extent of insider (management, labor, and nomenklatura) participation in the privatization process? What explicit and implicit preferences have been awarded to insiders?

The voucher privatization enabled factory managers to fight off competition from outsiders and gain control over the majority of large and medium-sized industrial enterprises. Nominally sold by public subscription, those enterprises were privatized through insider buyouts, facilitated by official corruption and favoritism. Under the voucher-privatization program, management and employees could purchase shares in privatized companies at a preferential rate.

Most owners who managed their factories before privatization have proved to be unable to turn them into successful businesses in a market economy. In part, this reflected the poor condition of the privatized enterprises and the overall economic crisis in Armenia.

5. How much public awareness of and support for privatization has there been? What is the nature of support and opposition to privatization by major interest groups?

Public support for privatization has declined as wrenching economic changes have not produced discernible improvement in the average standard of living. The fact that privatization was often tainted with corruption and favoritism added to public disillusionment. An indirect indication of the decline in public support for the adoption of western economic practices is shown in the strong support for Demirchian's campaign for the presidency in the March 16 and March 30, 1998 elections. Even with substantial vote fraud, Demirchian polled 40 percent in the March 30 run-off after running on a campaign platform based on promises of an industrial revival.

Resistance to privatization has been voiced by unions and left-wing parties on behalf of the work forces of medium and large state enterprises. Some of this opposition had more to do with opposition to the Kocharian government than genuine representation of worker opinions, which appear to be more concerned with wage arrears. The average Armenian is eager to work for any employer who would pay a decent wage, and there is a general consensus in the society about the need to attract foreign investment. Even so, a number of privatization deals involving foreign investors caused controversy over the perceived low price of state assets. For much of 1998 the government was accused by the opposition of selling ArmenTel and the famous Yerevan Cognac Factory at knockdown prices and of procedural violations of the law. But the deals went ahead despite the uproar.

MACROECONOMIC POLICY 3.50/7

1. Has the taxation system been reformed? What areas have and have not been overhauled? To what degree are taxpayers complying? Is tax compliance difficult to achieve? Has the level of revenues increased? Is the revenue-collection body overburdened? What is the overall tax burden?

The taxation system has been extensively reformed with an eye towards encouraging foreign investment and privatization. The tax law establishes six different types of taxes: profit/corporate, income, value-added, excise, property, and land. Employers are also required to pay a social security tax for employees.

The new Law on Corporate Tax became effective November 27, 1997 and set a two-level progressive scale for profit tax: 15 percent of taxable profits if they do not exceed 7 million drams (\$13,500), and 1.05 million drams plus 25 percent of the amount exceeding seven million drams. The maximum tax rate was previously set at 30 percent. Newly privatized industries and new companies formed with foreign investment are granted a two-year exemption from profit taxes. They pay half of the profit tax for years three to ten after the investment year. If the company is liquidated before the fifth year of operation, however, it must pay the total amount of taxes which otherwise would have been due from the third year of registration.

Armenia imposes a 20 percent value added tax (16.67 percent on consumer goods) and a variety of excise taxes at varying rates on luxury goods. Employers pay a social security payroll tax of 28 percent. Private farmers are taxed at a flat 15 percent rate. For non-agricultural land, the tax rate is based on the land's cadastral value as follows: 1 percent on land in urban areas and 0.5 percent on land outside urban areas. Property tax is levied on enterprises, residential houses, vehicles, and livestock. The Law on Income Tax, effective December 30, 1997, provides for a tax on personal income of Armenian residents. The maximum rate of 30 percent is set for taxable income exceeding 320,000 drams (\$615).

Tax evasion in Armenia remains widespread (as evidenced by the huge shadow economy) despite improvement in the government's revenue collection. Tax revenues in 1998 were 37 percent higher than in 1997 and equaled about \$320 million or 17.1 percent of GDP, according to the IMF. Tax revenues made up 12.7 percent of GDP in 1995. They were projected to grow by 22 percent in 1999. The government attributes the increase to a crackdown on the informal sector of the economy. In total, Armenian enterprises have to pay an effective tax rate of at least 50 percent.

2. Does fiscal policy encourage private savings, investment, and earnings? Has there been any reform/alteration of revenue and budget policies? How large are budget deficits and overall debt? Is the financing of the social insurance/pension system sustainable? What proportion of the budget is taken up by subsidies to firms and individuals?

The 1998 budget set government expenditures at 208 billion dram (\$400 million), with a deficit equal to 5.5 percent of GDP. The 1999 budget called for 267.8 billion drams (\$515 million) in government expenditures. With a projected rise in revenues, the government expected to bring the deficit

down to 5.3 percent of GDP. But according to IMF estimates, the figure likely will grow to 6 percent in 1999 due to the persisting effects of the Russian economic crisis, which caused a 2.5 percent drop in Armenia's industrial output in 1998. Despite the crisis, the Armenian economy as a whole grew at a robust 7.2 percent in 1998 under 1.3 percent consumer-price deflation. Still, Russia's economic woes were set to slow economic growth in Armenia to four percent in 1999.

Armenia's growing dependence on regular financial injections from the IMF and World Bank means that its governments have had to pursue tight monetary and fiscal policies since the early 1990s. The strategy of successive Armenian cabinets has been to foster long-term sustainable growth through a stable macroeconomic environment. Armenia has met most of the targets of a three-year loan program it agreed to with the IMF in 1996.

Armenia's major creditors are the World Bank, the IMF and Russia. The external debt, according to IMF figures, was about \$800 million, or 43 percent of GDP, at the end of 1998. This compares with 48.3 in 1997 and 38 percent in 1996. The external debt was expected to reach 44 percent of GDP by the end of 1999. In 1998, the government spent about \$100 million on debt servicing. The trade deficit rose by two percent to \$588 million. The Russian debt of \$73.7 million was restructured in September 1997 to be repayable over 11 years, beginning in 2000, at a five percent annual interest rate.

The 1999 budget of the State Pension Fund was roughly 30 billion drams (\$58 million). Of that, more than 3.5 billion drams was due to come from the government budget as a subsidy. The rest of the money was to be collected from the social security tax. Problems with its enforcement resulted in a shortfall of six billion drams by November 1999.

The UN Human Development Report on Armenia estimated government subsidies at 4 percent of GDP in 1997, down from 15 percent in 1993. Subsidies were not classified as a separate spending category in the government's budgets for 1998 and 1999. Most of the subsidies went to the energy and agricultural sectors, where a total of 31 billion drams (\$59.6 million) was to be spent in 1999.

3. Has there been banking reform? Is the central bank independent? What are its responsibilities? Is it effective in setting and/or implementing monetary policy? What is the actual state of the private banking sector? Does it conform to international standards? Are depositors protected?

The Central Bank of Armenia (CBA) acts independently. This is evidenced by the more than 50 bank closures in the six-year period from 1992 to 1998. The CBA is responsible for banking regulation and supervision, and is in charge of issuing bank licenses. It has also been very effective in setting monetary policy and has self-consciously patterned itself after the U.S. Federal Reserve. The IMF has pressed for mergers among Armenian banks to increase their capitalization and ability to extend credits to private enterprises.

The introduction of reforms in 1995 seems to have had a positive effect on the banking sector. The 35 percent limit on foreign interest in financial institutions was lifted. Armenia's banking legislation is seen as one of the most liberal in the former Soviet Union, with no restrictions placed on foreign banks. Only the court can force banks to disclose private accounts. Minimum capital requirements were raised. By the end of 1999 they were set at \$1 million for operating banks and \$5 million for newly founded ones. The threshold was up from \$350,000 in 1997. Banks are required to report daily or weekly to the CBA. The performance of audits by recognized independent auditing firms is mandated yearly.

International accounting standards were introduced in January 1996. By mid-1996, the CBA had finished the first audit of every commercial bank based on IAS standards. By mid-1999, there were 32 commercial banks operating in Armenia. Their combined capital was the equivalent of only \$56 million and assets were worth \$330 million. There were also five foreign banks. A couple of other banks had major foreign shareholders.

Public confidence in the banking sector was severely undermined in 1993 to 1994 with the collapse of several pyramid schemes. Even though there have been no cases of bank bankruptcy or loss of deposits since, many Armenians remain wary of keeping their savings in banks. Insurance of bank deposits is virtually non-existent.

Controls on interest rates were eliminated in 1994, and directed credits were ended in early 1995. Private banks tend to restrict their lending to short-term loans with very high interest rates (40 to 45 percent per year in drams) and collateral equaling or exceeding the value of the loan. Many businesses can not afford such expensive borrowing because they operate under smaller profit margins. There are a number of internationally funded lending schemes that provide Armenian businesses with cheap credit.

4. How sound is the national currency? Is the value of the currency fixed or does it float? How convert-

ible is the currency? How large are the hard currency reserves? Has exchange rate policy been stable and predictable?

Introduced in November 1993, the Armenian *dram* has proved to be a fairly sound currency despite the fact that most large business transactions are still carried out in U.S. dollars. Hyperinflation was curbed in 1995 when the rate of annual consumer price inflation fell to 35 percent. In 1996, it went down to 5 percent, but soared to 21 percent in 1997, according to official figures. In 1998, Armenia saw a 1.3 percent annual deflation. In 1999, inflation was about 2 percent.

From the beginning of the dram's stabilization in April 1994 through late 1999, the dram lost about a quarter of its value. The relative strength of the national currency has been ensured by the tight fiscal and monetary policies that the authorities agreed with the IMF and World Bank to implement.

The dram has had a floating exchange rate ever since its introduction. The CBA sets the rate based on the results of inter-bank currency trading. The dram has been virtually unaffected by the 1998 financial meltdown in Russia. The dram is convertible for current account transactions. The CBA's hard currency reserves, shored up by IMF loans, have grown consistently in the last several years, to approximately \$350 million by the end of 1999.

The relative macroeconomic stability in Armenia has involved a stable and predictable exchange-rate policy. So far there have been no planned massive currency devaluations, although some local economists favor them as a way to spur the economy. High business risks coupled with an extremely unfavorable trade balance mean disproportionately high interest rates in Armenia. Against the background of single-digit inflation, the CBA's refinancing rate was as high as 45 percent in November 1999. Yields on short-term government treasury bills were high, too.

5. Is there a functioning capital market infrastructure? Are there existing or planned commodities, bond, and stock markets? What are the mechanisms for investment and lending? What government bodies have authority to regulate capital markets?

There is a minimally functioning capital market at present, although three "stock exchanges" do exist. The Yerevan Stock Exchange (YSE) is the biggest one. Most enterprise takeovers and other deals bypass the fledgling stock market, with personal connections playing a dominant role. The government has pledged on several occasions to begin selling re-

maining state assets through the YSE as part of its stated goal to foster development of the capital market.

A share registry system has been implemented, and a unit in the ministry of finance has been assigned authority to regulate capital markets. A treasury bill market has been operating since October 1995. Russian financial companies dominated it until August 1998 when the grave economic crisis hit Russia. The government's treasury bills are seen as highly lucrative. Beginning in 1999 individuals were allowed to buy the paper directly from the ministry of finance.

MICROECONOMIC POLICY 4.00/7

1. Are property rights guaranteed? Are there both formal and de facto protections of private real estate and intellectual property? Is there a land registry with the authority and capability to ensure accurate recording of who owns what? What are the procedures for expropriation, including measures for compensation and challenge? Have any seizures taken place? Property rights, including intellectual property rights, are guaranteed in Articles 28 and 36 of the 1995 constitution. Private real estate is protected in fact as well as in law. Intellectual property rights are far less secure, particularly foreign entertainment products such as movies, music, and computer software. A land registry exists with the authority to record ownership. Expropriation may be challenged in court, and the 1995 constitution requires that fair value compensation be paid. No cases of state seizure of land and other property seem to have occurred since 1993.

2. To what extent have prices been liberalized? What subsidies remain?

The majority of prices have been freed. Price controls remain on the following goods: urban transport (in part), energy, state-owned housing, and irrigation. Electricity fees are expected to be liberalized with the planned privatization of Armenia's power grid. Government subsidies on water will likely be phased out after management of the water supplies system is transferred to a foreign company. An international tender was announced in mid-1998 to select a private water operator.

3. Is it possible to own and operate a business? Has there been legislation regarding the formation, dissolution, and transfer of businesses, and is the law

respected? Do there exist overly cumbersome bureaucratic hurdles that effectively hinder the ability to own and dispose of a business? Are citizens given access to information on commercial law? Is the law applied fairly? Do regulation or licensing requirements impose significant costs on business and consumers? Do they create significant barriers to entry and seriously hamper competition?

It is possible to own and operate a business. Legislation governing the creation and conduct of private enterprises includes the Law on Enterprises and Entrepreneurial Activities (June 13, 1994), the law on Private Business (December 24, 1993), and the foreign investments law (July 31, 1994). In the event of a change in legislation, the latter law allows a foreign investor to choose to remain subject to the existing laws for a five-year period. A new Bankruptcy Code was enacted in January 1997.

Business operations can be very difficult in those cases where government licenses must be obtained. The legal system is generally ineffective in contract enforcement. While reform has made a difference, many informal barriers to entry and free competition continue to make business difficult. Armenian laws can take effect only after their publication. A government publication that comes out periodically contains recently adopted laws and amendments.

A lengthy and rather expensive procedure for registering the purchase or sale of an enterprise is seen as one of the factors hampering the last phase of privatization and discouraging enterprise takeovers. In an effort to spare foreign investors the hassles of registration, the government set up in 1997 the Armenian Development Agency. The agency is supposed to provide those interested in doing business in Armenia with a wide range of services, including quick enterprise registration and information about tax legislation.

4. Are courts effective, transparent, efficient, and quick in reaching decisions on property and contract disputes? What alternative mechanisms for adjudicating disputes exist?

Armenia's courts continue to struggle with the burdens of Soviet-trained personnel and vulnerability to political pressure. In civil and commercial cases, judges have reportedly asked for bribes in exchange for favorable rulings. There is little faith in the courts, and many entrepreneurs are reluctant to resort to legal measures. Difficulties with competitors or state agencies are frequently resolved by means of appeal to politically connected patrons. Trials begin less than

six months after papers are filed. It takes between seven months and one year for final judgment to be executed. The Soviet-era State Arbitrage Board was reformed by the 1995 constitution to function as a commercial court.

In January 1999, the Armenian Bank Association launched the first private "mediating court," tasked with settling economic disputes. Under Armenian law, any such body can consider a case only if litigants a priori agree to submit to its jurisdiction. If one of the parties later refuses to recognize its verdict, the case is to be taken up by a state court.

5. Is business competition encouraged? Are monopolistic practices limited in law and in practice? If so, how? To what degree is "insider" dealing a hindrance to open competition? Are government procurement policies open and unbiased?

Business competition is officially encouraged, but legislation has not yet been passed to provide for enforcement. Even though Article 5 of the constitution guarantees "free economic competition," monopolistic practices are widespread. Government connections are essential for engaging in lucrative imports of some basic goods. A company that reportedly had close ties with National Security Minister Serge Sarkisian controlled the bulk of gasoline imports to Armenia until July 1999, when the newly appointed Prime Minister Vazgen Sarkisian moved to de-monopolize the multimillion-dollar business. The company, Mika-Armenia, was also accused of using its government connections to squeeze out competitors in wholesale supplies of wheat.

Free market mechanisms have functioned rather effectively in the retail and services sector as well as domestic manufacturing. The emergence since 1996 of private enterprises involved in food processing, production of alcohol and soft drinks, and cigarettes has rendered imports a less lucrative business.

The Armenian opposition made free competition the central theme of its challenge to the 15-year monopoly on telecommunication services granted to the Greek-controlled ArmenTel operator in March 1998. In a tricky January 1999 ruling, the Constitutional Court declared ArmenTel's exclusive rights unconstitutional but said that the existence of "natural monopolies" is not against the law. The court obliged the parliament to enact a law on natural monopolies. However, no legislation to that effect had passed by the end of 1999. Insider dealing, therefore, remains a major hindrance to competition.

There are no laws on government procurement policies. The government is bound by written procurement rules that

require a public tender for the purchases of equipment. But those rules seem to have not been adhered to in practice, and the government is generally reticent about how it selects suppliers. Personal connections play a large role. The press has so far not investigated the issue.

6. To what extent has international trade been liberalized? To what degree has there been simplification/overhaul of customs and tariff procedures, and are these applied fairly? What informal trade barriers exist?

Armenia has one of the most liberal trade regimes in the CIS. In December 1995, a complicated five-band tariff structure was transformed into a two-band structure with rates of 0 and 10 percent. Corruption among customs officers is a serious problem, though.

Informal barriers to trade are substantial and arise from crippling shortages of credit and poor infrastructure. The conflict with Azerbaijan has closed the most heavily used roads and railways and greatly complicates Armenian access to international markets. A single rail line runs from the Georgian ports of Batumi and Poti into Armenia. There are two roads capable of supporting heavy trucks on the Georgian side. There is a road connection to Iran, one of Armenia's major trading partners. Armenia has negotiated bilateral free trade agreements with 35 countries. It applied for admission to the WTO in January 1995, and was expected to become a member in November 1999.

7. To what extent has foreign investment and capital flow been encouraged or constrained?

Armenia strongly encourages foreign investment and international trade. Customs and tariff procedures have been overhauled, and real efforts have been made to control abuses by officials, particularly at Zvartnots International Airport. There are no restrictions on the repatriation of profits by foreigners. Foreign investors also receive a variety of tax privileges.

Direct foreign investment in the Armenian economy hit a record-high \$232 million in 1998, according to figures listed by the UN Conference on Trade and Development in its 1999 World Investment Report. This reflected a number of high-profile privatization deals with foreign companies, involving ArmenTel, the Yerevan Cognac Factory, and the country's two biggest hotels. Government figures on direct foreign investment in the first half of 1999 showed a major drop from the same period in 1998. Total foreign investments may rise in 2000 with the planned privatization of Armenia's power grid.

Official statistics put the number of registered companies with foreign participation at 1350 as of January 1999. Russia was the most important investor with 316 enterprises, followed by Iran, the United States, France, and Georgia. A comprehensive study jointly conducted by the Armenian ministry of industry and trade, IRIS Caucasus Center (a USAID-funded program), and the UNDP ("Investigation of Factors Inhibiting FDI in Armenia," January 30, 1999, Yerevan) listed the following factors hindering the flow of foreign capital: lengthy registration of enterprises, vague mechanisms of license acquisition, absence of anti-monopoly legislation, unclear legal procedures for appealing against government actions, and inadequate bankruptcy legislation.

8. Has there been reform of the energy sector? To what degree has the energy sector been restructured? Is the energy sector more varied, and is it open to private competition? Is the country overly dependent on one or two other countries for energy, including whether exported fuels must pass through one or more countries to reach markets?

Armenia undertook substantial reform of the electrical power sector in 1996, which ended four years of severe energy shortages. This reform resulted in a surplus of electricity, some of which began to be exported to Georgia in 1998. The state electricity firm was separated into generation and distribution enterprises and the government began to collect bills from consumers more diligently. Power rates, set by a government committee, have steadily been increased but are still not high enough to make the entire sector profitable. A growing debt of state enterprises threatened the financial viability of the sector by July 1999, forcing the government to divert 17 billion drams (\$32 million) in budget funds for partial debt repayment. The government turned down an IMF offer to further raise energy tariffs, and decided instead to raise the money by cutting back on expenditure in other areas. Many Armenians already find it difficult to pay the existing rate of about five U.S. cents per kilowatt-hour.

Still, the electricity fees will inevitably be liberalized after the privatization of the energy distribution network, announced in June 1999. This was an essential condition for the release of a \$53 million energy loan from the World Bank in March 1999. The loan was intended for upgrading the sector. Experts from the World Bank estimated that the sector will need \$1.5 billion in capital investments over the next decade. Bids for a 51 percent stake in Armenia's power grid, which consists of four enterprises encompassing dif-

ferent geographical areas, opened in July 1999 and attracted strong interest from foreign companies. Fifteen firms were short-listed for the second stage of the international tender by September.

The Metsamor nuclear power station, re-opened in 1995 with Russian loans and technical assistance, generates roughly one third of Armenia's electricity. Terms of the most recent Russian loan for Metsamor, worth \$20.6 million, were approved by the Armenian parliament on April 28, 1999. The money was to be spent mostly on purchases of Russian nuclear fuel. Nevertheless, Metsamor is expected to be closed by 2004 under an agreement with the European Union.

Hydro and thermal power stations account for the rest of Armenian electricity generation. The energy sector relies heavily on supplies of natural gas. With the creation of a joint venture in December 1997 between the Armenian government and Russia's Gazprom giant, Russia replaced Turkmenistan as Armenia's number-one gas supplier. The venture, *ArmRosGazprom*, was granted control over Armenia's gas infrastructure in September 1998. A pipeline carrying Russian natural gas to Armenia runs across Georgia. Armenia also engages in a seasonal swap of energy with Iran. The power grids of the two countries were linked to each other in February 1997. Gasoline and oil are mostly imported from Romania and Bulgaria, shipped by tankers to the Georgian Black Sea ports, and then transported to Armenia by rail. Oil is also imported from Russia and Iran.

Social Sector Indicators

1. What is the size of the national workforce? What proportion of the workforce is employed on a full time basis? What are the labor force participation rates for adult non-retirement age women and men? What is the overall official and unofficial unemployment rate and what is the unemployment rate for men and women? Does the state provide unemployment compensation; if so, how is it calculated and how long is it paid? What proportion of the median wage does unemployment compensation constitute?

Official figures for 1998 put the size of the national workforce at 1.54 million or 41 percent of the population. As of mid-1999, 88 percent of the workforce was employed on a full-time basis. However, most economists agree that the official data is grossly exaggerated and fails to take into account the high levels unemployment and/or underemployment. Many

Armenians are nominally listed as employees of state enterprises that have long stood idle. According to the UN Human Development Report, women made up about 45 percent of the labor force in 1997.

The official unemployment rate stood at a stable 12 percent in 1999. But again, the real unemployment is far higher, and is the biggest social problem of the average Armenian family. The UNDP estimates the unofficial unemployment rate at 25 to 28 percent, based on the findings of a survey it conducted in December 1997. The actual percentage of people out of work may be even higher. The vast majority of the officially registered unemployed, over 65 percent, are women. The reason why most jobless people choose not to register with the authorities is the meager amount of unemployment compensation: 1800 drams or \$3.5 per month. And the compensation is paid only for six months after the registration. This compares with the official average wage of 17,000 drams (\$33).

Official percentages are misleading for two other reasons. First, no census has been held since 1989 to determine the size of the population. Hundreds of thousands of people are believed to have left Armenia in the early 1990s, fleeing worsening living conditions. Most of them cannot be considered part of the Armenian workforce. Secondly, a large part of the population is employed in the informal sector of the economy. Official statistics fail to gauge this phenomenon.

2. Describe the national pension and retirement system. Describe public sector and private pension systems. Provide data on government pension benefits and indicate the proportion of retirees covered by pensions. What is the retirement age for men and women? What is the average monthly retirement benefit and what proportion of the median wage does it constitute? Is there a system of specialized benefits for specific groups (for example, the disabled or certain groups like Chernobyl victims)?

According to the Armenian ministry of social security, there are about 590,000 pensioners in Armenia (15 percent of the population). Pensioners are paid benefits from the State Pension and Employment Fund to which employers contribute a social security payroll tax equal to 28 percent of employees' salary. An additional three percent is levied from employees' salaries. The pension and retirement system in Armenia is largely based on the so-called pay-as-you-go principle. The size of pension benefits, in other words, does not depend on the amount of contributions a retiree has made

to the pension fund. A government bill pending discussion in parliament calls for a transition to the pay-as-you-can principle that would end the current egalitarian system. Pension benefits would then be commensurate with life-long contributions. The law allows private pension funds. Several attempts to launch such schemes have failed because of low living standards and the absence of guaranteed employment. Virtually all retirees are covered by public sector pensions.

In a law that came into force on January 1, 1999, the Armenian parliament increased the retirement age from 60 to 65 for men and from 55 to 60 for women. Officials argued that the move was necessary in view of an aging population that would put the pension system under further strain in the next 10 to 15 years.

The average monthly retirement benefit was equivalent to about \$10 in 1999. Deviations from that sum depending on the number of years worked are insignificant. This sum makes up less than one third of the official average wage, and half of the per-capita subsistence level. Most retirees live with and rely on their children.

Benefits for socially vulnerable groups of the population have been in place since the beginning of economic reforms. From 1995 to 1999 they were part of the government's *Paros* (Beacon) system that had 26 criteria for individuals and families to qualify for government aid. Those criteria included age, presence of a disabled person in the family, unemployment and residence in the north of the country (still reeling from the catastrophic earthquake of 1988). A total of 650,000 families covered by *Paros* were eligible to receive humanitarian aid from abroad. Beginning in 1999, the government introduced a new system of "family benefits," in an effort to concentrate help the most vulnerable segment of the population. The number of aid recipients was cut drastically to 200,000 families. The social benefits increased as a result but are still a measly 6,200 drams (\$12).

3. What is the country's average and median monthly income in local currency and dollar equivalents? What has been the trend in average and median monthly incomes since 1993? Are there major problems in wage arrears? If yes, describe their extent and scale, providing some detail related to the sectors of the economy in which arrears are most pronounced. Describe how people compensate for cash arrears (for example, barter). What are the differences in public and private sector median wages and in median wages among men and women?

The average monthly wage was 17,000 drams (\$33) in 1999, according to government statistics. But analysts say the real figure is higher as many employers tend to underreport wages of their workers to pay less income and social security taxes. The minimum salary is 5,000 drams or just under \$10. In dollar and dram terms, there has been a steady growth in the average income since 1993 when it was at a record-low level of \$10. In December 1997, it was an equivalent of \$28.

Wage arrears in the public sector are a routine phenomenon in Armenia. The hardest hit are doctors, teachers, academics, and scientists. In the public health sector, for instance, salaries may be delayed for up to six months. The most recent wave of wage arrears came in July 1999 when the World Bank delayed payment of a \$25 million loan installment because of the government's higher-than-expected budget deficit. The money was made available in September after the government took fiscal austerity measures. According to UNDP estimates, back wages reached 37 percent of the total amount of budgeted public sector funds in September 1998. As for pensions, only the retirees in the capital city of Yerevan usually are paid on time.

Social effects of the wage arrears are somewhat mitigated by the fact that many Armenians have long stopped relying on the state. (Though, for quite a few people the extremely low public salaries and pensions are the principal source of income.) Money transfers from abroad and/or food support from relatives living in rural areas helps them to make the ends meet.

The average salary in the public sector hovers around \$20. The real average wage in the private sector may be as high as \$100. Government data does not differentiate between men and women. Men are apparently paid better than women are in the private sector.

4. What has been the annual size of the elementary, secondary, and post-secondary education school population since 1993? What is the proportion of 8-18 year olds enrolled in the educational system and what has been the trend since 1993? What is the national student-to-teacher ratio? Provide basic data on public spending for education since 1993: what is the proportion of GDP expended on education by the state, and how has this proportion changed since 1993?

UNDP figures show that the number of 7 to 17 year olds enrolled in some 1450 10-year "secondary schools" (which in fact combine elementary, secondary, and post-secondary education) across Armenia stood at just over 601,000 in 1998. The propor-

tion of 7 to 17 year olds enrolled in the educational system hovered between 77 and 78 percent from 1995 to 1998.

The ministry of education put the number of students in November 1999 at 581,000. With a total of 59,000 teachers working in secondary schools, the student-to-teacher ration was thus 9.85. Ministry officials emphasize that many teachers work part time. Hence, their higher-than-necessary overall number.

Overall public spending on education in 1999 was projected at approximately \$50 million, or 2.5 percent of GDP. The UN Human Development Report says this proportion equaled 2 percent of GDP in 1997 and 1996, and 2.6 percent in 1995. It was also two percent in 1994. The amount of budget funds expended on education since the Soviet breakup has been insufficient, as the decline in educational standards attests.

5. Provide data on infant mortality, birth rates, life expectancy (both male and female), divorce rates, and suicide rates, and trends over recent years in these spheres.

According to the 1998 UN Report, the infant-mortality rate in Armenia was 15.4 per 1000 births in 1997, up from 14.7 in 1994. It was 14.2 and 15.5 in 1995 and 1996 respectively. Infant mortality has declined by an average of 40 percent since the 1980s. The birth rate has steadily declined from 13.7 in 1995 to 11.6 in 1997. Life expectancy, which was one of the highest in the former USSR, has risen slightly since 1994. In 1997, it was 77.3 years for females and 70.3 for males. On average, this is by two points higher than in 1994. But the UNDP cautioned that the government figures might be higher than they actually are. The average divorce rate was 185 per 1000 marriages in 1997, almost the same as in the previous year. In 1996 and 1997, the average number of suicides per 100,000 persons was 3.4 for men and 1 for women.

6. Provide data on the ratio of doctors and nurses to the population. What is the trend in average and median monthly wages for doctors, nurses, and medics since 1993? Provide data on the number of hospital beds and on the number of hospital beds per capita. Provide statistics on the percentage of GDP devoted to health care. Provide data on the proportion of GDP expended by the public sector on health care.

Official statistical information cited by the UNDP put the number of persons per 1 doctor in 1997 at 291, against 298 in 1995. The ratio of nurses to the population was 1 to 143 in 1997, down from 1 to 120 in 1995.

The Soviet-era free health care was formally ended in 1995 when most medical services became paid. The state was longer able to meet basic needs of the sector, including paying doctors decent wages. But widespread poverty meant that few people could afford medical aid, which is why the doctors are still poorly paid. In policlinics, a doctor's official average salary is \$30. In absolute terms, this is more money than in the early 1990s. But in terms of its purchasing power, the average income remains unchanged, although it is reasonable to suggest that policlinic doctors underreport the real amount of fees they collect from patients. Wages are apparently higher in hospitals where they are not fixed and depend on the number of operations. Surgeons have always been a well-to-do segment of the Armenian population.

Official data indicates that there are 178 various hospitals throughout Armenia, with a total of around 26,000 hospital beds. This amounts to 7 hospital beds per 1000 people. That proportion is slightly better than in 1993, and is by far better than the 1988 figure of 2 beds per 1000 people. But hospital attendance has shrunk by at least 40 percent over the past decade, reflecting the inability of many Armenians to pay for health care.

The government budget for 1999 called for \$40 million in health expenditures, equal to two percent of the forecast GDP. The proportion of GDP expended by the public sector on health care was roughly the same in 1998. This compares with 1.4 percent registered in 1996 and 1997.

The population's aggregate spending on medical services totaled 88 percent of the overall government expenditure on health care in 1997, meaning that the percentage of GDP devoted to health care stood at 2.6 percent at the time.

7. What are official and authoritative nongovernmental data concerning the scale of poverty and poverty rates? What is the poverty rate among males, females, and the elderly and pensioners? Provide trends in poverty rates since 1993.

Poverty is widespread in Armenia. Yet there is no official poverty line set by or calculated by the government. This makes it hard to measure the real poverty rate. The UNDP offered three indicators based on different benchmarks. If one accepts a subsistence-level food basket consisting of 18 basic staples as a basis, 70 percent of the population lived below the poverty line in 1997. The per-capita food basket was calculated by the Armenian health ministry at 2,412 kilogram calories a day and was worth about \$30 per month.

The Armenian statistics ministry came up in 1996 with a more modest "consumer basket" estimated at \$25 per capita,

despite the fact that along with 2,100 kilogram-calories of foodstuff it included other basic consumer goods. A survey it conducted among 5,000 households found that personal income of 55 percent of respondents fell short of that benchmark. If one uses the World Bank's standard, whereby a person spending less than \$1 a day is considered poor, the poverty rate in Armenia is above 80 percent. But it should also be noted that these figures are rather subjective because they are based on the official income level in Armenia. The huge scale of the shadow economy makes it difficult to gauge the real per-capita income.

Poverty reached its peak in 1992 to 1993 when Armenia's GDP was cut in half. People have since tried to adapt to the extremely difficult living conditions. Some have engaged in

business, while many others live off money transfers from relatives working abroad. This is why poverty has again increased since the Russian economic crisis of August 1998. It has cut drastically remittances from hundreds of thousands of Armenians working in Russia and hit hard the already struggling Armenian enterprises oriented to the Russian market.

Given the continuing strength of family bonds in Armenian society, there seems to be no major difference in poverty rates among men and women. Most pensioners can be considered poor in view of their meager monthly benefits. But most elderly people live with their children and are supported by them. Family is therefore a significant social security institution.

