

Role of the Diasporas in Transition Economies: Lessons from Armenia



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Structure

- Diasporas and economies in transition
- Potential of Armenian diaspora
- Government diaspora strategy and diaspora response
- Steps to raise efficiency of collaboration
- Recent initiatives: Ministry of Diaspora
- Elements of pragmatic strategy

Major lessons from transition:

- In the longer-term, quality of the business environment is more important for economic growth than traditional macroeconomic reforms
- Growth is coming mostly from new entry (domestic and foreign), not from privatized SOEs
- Management turnover, change in management culture is a critical factor of growth

Countries with strong diasporas have major potential advantages

Diaspora as an instrument to:

- support FDI inflow and management training and facilitate the creation of new companies
- build new business partnerships between local and international companies
- Generate the first movers – taking more risk, coming as early investors to the home country first, changing market expectations

Armenia: Great potential of diaspora (1)



- More than 5 mn Armenians outside of Armenia, o/w 1 mn in the US (and only 3 mn in Armenia)
- In 15 years they mobilized US\$900 million in humanitarian assistance
- Private transfers and remittances -- about 30% of Armenia's GDP in the late 90s (2008: 18% of GDP)
- Major source of political support internationally
- Great recognition: 90 percent of Armenians in Armenia would like to see the diaspora play a more active role in Armenia's economic development

Armenia: Great potential of diaspora (2)

- Armenia has two comparative advantages: Diaspora and qualified labor (Ministry of Industry, 2003)
- Diaspora as a driver of several highly visible success stories:
 - Diamond cluster, more than 40% of total export at the beginning of the decade
 - Development of the tourism sector, bringing Marriott to Armenia, infrastructure upgrades
 - IT and hightech sector over the last 5-6 years⁶

Peculiarities of Armenian diaspora

- Multiple identities (“Syrian Armenian living in the US”)
- Thick international networks
- Highly organized diaspora communities with a long history of diaspora tradition
- Complicated communities, highly divided politically and culturally (traumas related to genocide and to the Soviet divide)
- “Size of the Diaspora leads to high expectations all around”
- Old nation, a very new state

Underutilization of the potential until recently

- Diaspora involvement in economic development remained low until early 2000s
- Overall FDI volumes were depressed – major implications for employment and poverty
- No participation in debates on domestic economy policy
- Imbalance between humanitarian support and investments
- Diaspora support sometimes became a liability, not asset

Why did it happen this way?



- A specific post-Soviet government in Armenia
- Liberal façade but over-regulation, and the new elite dominated by military
- The emerged investment climate has been hostile to new entry, including to the Diaspora
- The regime has been heavily relying on Diaspora support, but de facto it is blocking Diaspora's investments. Concerns regarding political and economic competition.

Government's priorities in the 90s

- Focus on humanitarian agenda, political support, and individual large scale (visible) projects
- Not much diaspora engagement in any sort of policy dialogue
- Diaspora as a lobbying instrument and a source of cash, but not as an equal partner
- Proper noise: “To enhance the role of the Armenian diaspora not only as actual and potential source of investments, technologies and knowledge, but also as a transmitter and customer of Armenian products.” (Ministry of Industry, 2003)

Diaspora Conferences

- Major gatherings to strengthen the bonds and demonstrate solidarity
- 2nd Conference (2002): 5 major joint projects
 - regional health center in Yerevan
 - virtual Armenian studies university
 - diaspora museum (“Unity through diversity”)
 - supporting Armenian university students globally
 - Committee on curriculum (forum for Armenian educators)

Diaspora's response



- Providing a major inflow of humanitarian aid and private transfers
- Successfully lobbying the US Government for expanding official assistance to Armenia
- Providing political support to the Armenian Government
- “Painting churches, but not talking development policy”. Giving away money and going home.
- Failed to modify its traditional “cultural” agenda to make it somewhat more development-oriented

Hayastan Foundation

- Major structure for raising and consolidating diaspora funding for humanitarian relief effort in Armenia
- Was critical in the early years of independence
- Utilizing the old tradition of Armenian global benevolence
- Indirectly helped to reform the state system for social assistance. Armenia is the regional leader in the area of means-tested social benefits.

Examples of other diaspora initiatives

- AmCham: American Business Chamber in Yerevan – one of the most important independent business organizations

<http://www.amcham.am/>

- Armenian Volunteer Corps

<http://armenianvolunteer.org/main.htm>



Less successful initiatives

- Lincy foundation -- \$300 mn (10% of GDP) in road repair, a huge public work program
- Armenia Fund - seed investment fund, jointly with the IFC, failed to raise money and start operations



Underutilization of the Diaspora potential in the 90s

- Helping the government more than the private sector
- Undermined demand for further domestic reforms. Helped to take the pressure out of the system and preserve status quo.
- Fueled emigration and income differentiation instead of local development

But things started to change

- More constructive relations due to the improvements in the business environment
- More openness for diaspora's FDI (e.g. in the financial sector)
- ADA was instrumental in advocating investment climate changes
- New dynamism in diaspora relations since the election of the new President in early 2008

Ministry of Foreign Affairs

- <http://www.armeniadiaspora.com/>

Major government communication tool
(databases, job and business opportunities for
Diaspora in Armenia)

- Systemic effort to ease diaspora travel to
Armenia and make it more attractive
 - visas
 - your travel programs
 - special interest tours (pilgrimage)
 - support for upgrade in tourism infrastructure

Armenian Development Agency

- <http://www.ada.am/>
- "one-stop shop" agency for foreign investors
- Secretariat to the Business Support Council of Armenia
- Tool of diaspora policy because a significant share of investors comes from diaspora
- The most important to date instrument of policy dialogue on improvements in investment climate

Armenia 2020

- Initiating a public dialogue to develop a vision for Armenia
- Armenia 2020 is a scenario-building exercise that focuses on the identification of alternative development models for the country
- Led by the staff of McKinsey Global Institute (professionals, not usual diaspora activists)
- Little interest from the government first
- But recently a decision to set up a National Council on competitiveness

Armentech

- <http://www.armentech.org/>
- Initially as AHTCA (Arm High Tech Council of America)
- “To promote and support the creation and development of technology-based businesses in Armenia”
- Promotes international interactions and investments for further growth
- Aimed at building linkages, expanding outsourcing, improving image of Armenian IT firms
- Specific initiatives: training, collective open-source projects, contribution to the sectoral strategy

Diaspora support for the IT cluster

- Critical mass of diaspora entrepreneurs from the IT/Hi-tech was brought to Armenia
- 90% of foreign IT companies established in Armenia in 2000-06 have diaspora roots
- Bringing Microsoft and Sun Microsystems
- Support for 2 high-tech business incubators
- Establishment of IT foreign offices
- Joint ICT training center in Armenia

New PPP initiatives, diaspora focused

- Ministry of Industry has been preparing a set of ambitious projects to attract diaspora funding, financial expertise, and project management skills
- Encouraged by the success of private management and upgrade of Yerevan airport
- Major project proposals in roads and railways
- Pan-Armenian Bank: Development bank to support the strategy of National Competitiveness Council

New Ministry of Diaspora: Tasks

- Reinforce collaboration with diaspora
- Repatriation and pilgrimage
- Preservation of Armenian identity
- Pan-Armenian information field
- Support the formation of Pan-Armenian coordination body, which will set priorities for Armenia-Diaspora collaboration
- Create conditions for diaspora participation in strengthening Armenian statehood
- Protect rights and freedoms of all Armenians

Ministry of Diaspora: Functions

- Draft legislation on status of diaspora and dual citizenship
- Draft cooperation programs
- Develop strategic plan for cultural development of diaspora
- Prepare strategic plan to improve information exchange
- Fight Anti-Armenian propaganda
- Support self-organization of diaspora
- Study Armenian assets in diaspora
- Contribute to the preparation of textbooks and educators

Elements of the Pragmatic Diaspora Strategy in the low income country (1)

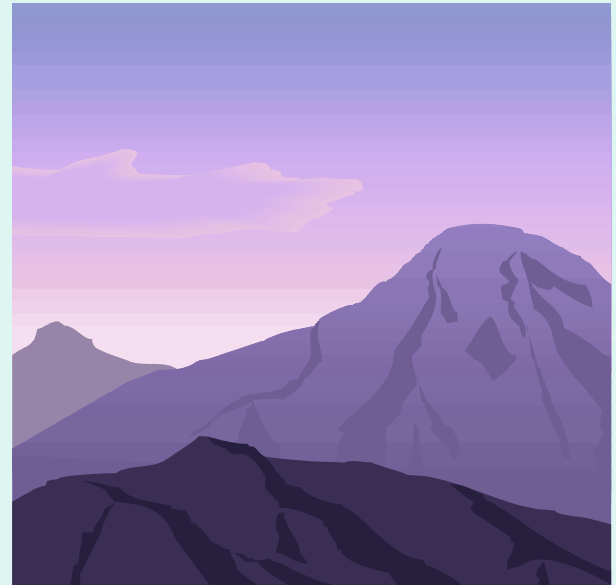
- Do not overkill the country with soft money – without investments humanitarian aid solves no problem
- Support organizations of new local private businesses that are not linked to the regime
- Support practical business and managerial training of new business owners and managers in new companies
- Do not be shy to participate in the policy debate and criticize the government; no unconditional support

Elements of Pragmatic Strategy (2)

- Collective investment instruments to share the risks – a seed equity fund; Development Bank
- Instruments to support new entry, first movers. Business Advisory Center.
- Support local think tanks -- monitoring patterns of economic liberalization
- Helping to build a realistic image of the country

Elements of Pragmatic Strategy (3)

- Support business organizations of the diaspora
- Support for business contacts, professional travel, etc.
- Use diaspora professionals as providers of TA under the donor programs



THANK YOU