



# MILLENNIUM DEVELOPMENT GOALS (MDG) ACCELERATION FRAMEWORK: YOUTH EMPLOYMENT IN ARMENIA



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**The Millennium Development  
Goals (MDG)  
Acceleration Framework: Youth  
Employment in Armenia**

Yerevan 2012

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## FOREWORD

I am pleased to introduce the publication *the Millennium Development Goals (MDG) Acceleration Framework: Youth Employment in Armenia*. This report is part of a wider UN effort to support countries in overcoming challenges and achieving off-track MDG targets by 2015.

Progress towards MDGs has to be monitored and comprehensively reviewed at the country level, taking into account new challenges and risks arising from recent global economic and financial crises. In order to support countries tackling new as well as structural challenges, the UN developed and rolled out the MDG Acceleration Framework (MAF), which provides national stakeholders with a systematic approach to identify and prioritize bottlenecks that are causing MDGs to veer off-track or advance too slowly. Through the MAF process, the country develops a comprehensive, collaborative, and focused plan of action based on prioritized solutions.

In light of this, the Government of Armenia has decided to apply the MAF to address MDG 1 target on productive employment and decent work for all, including women and young people. The UN Country Team (UNCT), led by UNDP and UNIDO, rolled out the MAF analysis, which does not replace existing, nationally-owned planning processes and frameworks tackling youth employment issues. The recommendations emerging from this report will help speed up the implementation of existing strategies and programmes by identifying feasible and high impact actions, and cross-sectoral partnerships.

The publication includes a focused, agreed upon Action Plan, emphasizing short-term measures that can be implemented in two to three years, based on feasibility and impact assessments. At the same time, recognizing the complexity of youth employment topic, efforts also have been made to address longer-term systemic issues.

I am confident that this publication not only will improve the understanding of the challenges and opportunities associated with promoting youth employment, but also will help implement coordinated actions in relevant areas, such as employment, education, business environment, and agricultural development, in the context of broader approaches to expand opportunities for decent work for all, especially for youth and women.

Implementation of high impact actions will require, in addition to strong political will and commitment, partnerships at local, national and regional levels. In view of this, I would like to express my sincere appreciation to our national and international partners, especially the State Employment Services Agency, Small and Medium Entrepreneurship Development National Center, UNDP, UNIDO and others who have already committed to the implementation of the Action Plan.

Today, young people's voices should be heard, their creativity and enthusiasm supported, and their rights respected. Let us join young people everywhere to help build a gateway to better future, and ensure that decent and creative jobs are available and accessible to all youth



**Dafina Gercheva,**  
UN Resident Coordinator

**Dear Reader,**

Providing decent employment opportunities for youth is a key developmental issue for all. The long-term competitiveness of a country depends on well-educated young people who are able to put their skills to productive use for the benefit of the economy and society. Unfortunately, young people too often are among the most vulnerable groups due to the lack of education and employment opportunities, which further contributes to wider societal challenges such as poverty. The Government of the Republic of Armenia considers youth employment a high priority, and has been providing targeted support through public employment and educational policies and services. This report, the Millennium Development Goals (MDG) Acceleration Framework: Youth Employment in Armenia, is a continuation of collective efforts to expand young people's capacities and access to decent jobs.

This report identifies priority bottlenecks, as well as high impact and feasible solutions to existing interventions for youth employment in the Republic of Armenia, such as matching the supply and demand sides of the labour market, improving higher and vocational education for jobs in demand, addressing disparities in regional development, and unemployment levels among women and youth.

In addition, the application of the MDG Acceleration Framework adds value to current efforts by strengthening collaboration among various partners, such as the government agencies, private sector, civil society and international partners, including cross-sectoral partnership to implement the solutions identified in the Action Plan. This initiative was also timely since it will contribute to the operationalization of current plans and programmes to be undertaken by the State Employment Services Agency and other partners, and is aligned with the priorities set by the Republic of Armenia Government Programme (2012-2017). Recognizing that sustainable resolution of employment challenges will also require comprehensive, structural solutions, the report also highlighted some of these longer-term recommendations that will need to be implemented in addition to shorter-term actions in the Action Plan.

We are pleased to introduce this publication, and we welcome your continued support and interest in expanding Armenian youth's capabilities and skills, so that they can build sustainable livelihoods for both current and future generations.

  
**Shamam Harutyunyan,**  
**Deputy Minister**  
**RA Ministry of Labor and Social Affairs**

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### Contributors

Many background studies, papers and notes were prepared on thematic issues in Youth Employment Report in the frames of MDG Acceleration Framework in Armenia, as well as analysis of the local trends in social and economic development. These were contributed by MAF National Experts/ Armenia Gagik Torosyan and Mkrtich Ayvazyan, Vrej Jijyan, UNDP ex-SEG Portfolio Analyst/ Armenia, Karine Simonyan, UNDP MAF Coordinator/Armenia, Tuya Altangerel, UNDP Policy Specialist, MDG Support Team/Poverty Practice, Bureau for Development Policy/NY, Almudena Fernandez, UNDP BDP/NY, Julia Rohe, UNIDO/Vienna, Anahit Simonyan, Head of UNIDO Operations in Armenia, “Coordinated Support to Achieve Millennium Development Goals /MDG/” Induction Workshop Bottleneck Analysis participants.

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## **LIST OF ABBREVIATIONS**

AMD - Armenian dram  
ADA - Armenian Development Agency  
ADB - Asian Development Bank  
BAS - USAID funded projects supporting SME  
CC - Chamber of Commerce and Industry of the Republic of Armenia  
CIS - Commonwealth of Independent States  
CS – Civil Society  
EDMC - Enterprise Development and Market Competitiveness)  
EGP - Enterprise Growth Programme  
EU – European Union  
FEZ - Free Economic Zones  
FREDA - Fund for Rural Economic Development of Armenia  
GDP - Gross Domestic Product  
IFAD- International Fund for Agricultural Development  
ILCS - Integrated Living Conditions Survey  
IT - Information technology  
LSG- Local self-governmental  
M4P - “making markets work for the poor”  
MAF - MDG Acceleration Framework  
MCC- Millennium Challenge Corporation  
MCA - Millennium Challenge Account  
MDG - Millennium Development Goals  
MTEF - Medium-Term Expenditure Framework  
NGO- Non Governmental Organization  
NSS - National Statistical Service  
PPP - Public-private partnership  
R&D – Research and development  
RA - Republic of Armenia  
RACP- Rural Assets Creation Programme  
RF - Russian Federation  
SDC - Swiss Agency for Development and Cooperation  
SDP - Sustainable Development Programme  
SESA - State Employment Services Agency  
SME DNC - SME Development National Center of Armenia  
SME- Small and Medium Enterprises  
UN - United Nations  
UNCT- United Nations Country Team  
UNDP - United Nations Development Programme  
UNIDO - United Nations Industrial Development Organization  
USAID - US Agency of International Development  
VET - Vocational Education and Training  
WB- World Bank

## EXECUTIVE SUMMARY

- ✓ At the UN Millennium Summit held in New York in 2000, the Millennium Declaration was signed by 189 states, including Armenia, and eight goals were set, with 18 quantifiable targets to be achieved by 2015. In 2005, four more targets were added. This report addresses MDG 1, Target 2 (A) **achieve full and productive employment and decent work for all, including women and young people**, which is currently off-track.
- ✓ Analysis of Target 2 (A) indicators reveals that, in Armenia, to achieve MDG 1, problems associated with GDP per employed individual, and female and youth employment need to be addressed. The report focuses on youth employment in rural areas, as migration from rural areas has increased in the past two years. In addition to 60 percent of domestic migration stemming from rural areas, the vast majority of employment in rural areas is in agriculture, a low-wage sector with little diversification and innovation, and therefore, increasingly undesirable among youth.
- ✓ Programmes carried out by the **State Employment Services Agency** (state employment programmes), **Youth vocational orientation centers** (vocational orientation and career counselling services), the **Republic of Armenia (RA) Ministry of Sport and Youth Affairs** (activities particularly related to youth engagement), **RA Ministry of Education and Science** (particularly, programmes on tertiary and higher education), **RA Ministry of Territorial Administration** (proportional territorial development programmes, socio-economic development programmes), as well as **RA Ministry of Economy** (business environment development) are of high importance in terms of increasing youth employment.
- ✓ Numerous public and private organizations have been established to support enterprise development using multiple mechanisms. These organizations/programmes comprise two groups: state institutions (and/or with state participation) and international organizations/donor funded projects.
- ✓ Overall, the number of people employed as a result of these public programmes has increased annually. In 2010, around 11.3 thousand were employed, of which 26.2 percent were young people. Indeed, the share of employed youth has been steadily increasing.
- ✓ The Government has implemented a number of reforms in the professional education system. Reforms in **Higher (Graduate) Education** have been implemented in accordance with the principles of the Bologna Process: the national framework of higher education qualification has been approved; the new strategy of financing for universities has been developed and approved; requirements and terms of certification of professional education programmes have been reviewed, the student mobility issue has been regulated, a credit system to finance research in post-graduate education has been introduced. As part of reforms in **Vocational or Tertiary Education**, 12 regional colleges were established and buildings renovated or refurbished. To support national efforts, in 2006 **UNDP Vocational Education and Training System Project (UNDP-VET)** was also launched, aimed at increasing youth employment opportunities via strengthening and enhancing Armenia's vocational-technical education system.

- ✓ The Government has recently implemented a number of measures to reform and improve the business environment. These include improved tax and customs regulations, simplifying registration and other procedures associated with starting a business, addressing problems associated with foreign trade and economic competition, and urban development permits and inspections. In this context, “Small and Medium Entrepreneurship Development National Center” Fund (SME DNC) plays an important role as the main state institution supporting small and medium entrepreneurship (SME) in the country.
- ✓ In order to mitigate the consequences of disproportional under- development of *marzes*, the Government has carried out a number of measures, such as **infrastructure rehabilitation** schemes (irrigation and drinking water supply was improved, roads of special importance were built and rehabilitated, internet and telecommunications coverage expanded considerably), **earthquake zone reconstruction**(provision of apartments to families), **affordable apartments to young families** (assistance to young families in need of housing improvement), and other socio-economic measures.
- ✓ The level of employment differs significantly between rural and urban areas. In 2010, employment in urban areas was 40 percent of total employment; in rural areas, about 67 percent. Overall, agriculture accounts for about 45 percent of all employed people. In 2010, 28 percent of the young people (15-24 age group) living in rural areas were employed; of which 72 percent were employed in agriculture. In rural communities, women are mainly employed in agriculture, education, health and social work, and trade.
- ✓ There are gender and generational differences in rural unemployment. In 2010, female unemployment in rural areas exceeded that of male unemployment (6.4 percent and 5.8 percent respectively). Youth unemployment rate in rural areas was about 22 percent; three times higher than the average rate of rural unemployment.
- ✓ In 2010, average wage in agriculture (the main sector for employment in rural areas) was AMD 44,000 monthly (US\$ 117.8), much lower than average wages in financial and insurance sectors (AMD 102,000 monthly; US\$ 273).
- ✓ The share of informal employment is especially high in agriculture, about 97.8 percent, as compared to about 56 percent in construction, and 49 percent in trade. It is worth mentioning that informal employment is almost non-existent in finance, insurance, real estate, and international organizations. In 2010, in rural areas, about 80 percent of employed young people aged 15-24 were informally employed.
- ✓ In rural areas, the poverty level, at about 36 percent, appear slower in comparison with urban areas (excluding Yerevan), at 45.4 percent. In rural areas, poverty rates were comparatively lower among people with higher education: and among people with college education, about 29 percent, among those with primary education, 43 percent. It is disconcerting that nearly one-third of employed are the working poor . Poverty among young people, especially in rural areas, is mainly due to difficulties for this age group to find decent work.

- ✓ Youth and young adults aged between 18 and 35 constitute a large share of migrant workers. In 2010, people aged 20-39 accounted for 45 percent of those leaving Armenia; people aged 20-24 accounted for 12 percent.
- ✓ Through the application of the MAF methodology, four priority interventions were selected that affect youth employment: **employment policy, vocational education, business and investment environment, and rural development/reduction of territorial discrepancies**. For each of the four interventions, a number of activities that would contribute to the MDG target achievement are identified, as are bottlenecks that might impede their successful implementation. Possible short-term solutions are presented. The analysis is based on the available data and discussions held during the MAF workshop (Aghveran, 12-13 April, 2012) attended by UNIDO and UNDP representatives, with the participation of representatives from civil society, private sector and government agencies, such as the Ministry of Territorial Administration, the Ministry of Planning, the Ministry of Labour and Social Affairs, including the State Employment Agency, international partners such as Heifer Foundation, Save the Children Fund, USAID, GIZ and other UN agencies. This report presents the most feasible solutions that can be achieved with current resources, capacities, and partners in the next two- to three years; the MAF Action Plan identifies the key partners as well as an estimated budget.
- ✓ Activities in the scope of the “**Employment policy: promote employment opportunities and create workplaces for youth**” intervention focus on effective public services such as training and consulting related to youth employment opportunities and vocational orientation. The activities target rural and borderline areas, and would be conducted at *marz* and community youth centers. In addition, activities to provide economic/financial stimuli to improve employers’ willingness to hire qualified youth, and promote unbiased selection of employees regardless of gender or civil status are presented.
- ✓ The intervention “**Education: provide youth with opportunities to receive quality education complying with their aspirations, and capacities**” includes activities such as strengthening accessibility and quality of professional education across the board, evaluation of education quality and skills among unemployed people, improvement of a vocational orientation system, including the lifelong learning system relevant to the labor market requirements, as well as the provision of gifted students with opportunities to receive professional education in the world recognized educational institutions.
- ✓ The intervention “**Business and investment environment: create a favorable business and employment environment for young people in order to promote their business initiatives, enhance non-agricultural employment in rural areas**” identifies the following priority activities: (1) provide newly-established and operational small and medium enterprises (SME) (including youth start-ups) with credit guarantees, marketing and training services; (2) organize events for youth in rural communities; (3) support women entrepreneurship (training and business start-ups among women); (4) form youth-led farms, and agricultural product processing micro-enterprises, and (5) create a Free Economic Zone on the premises of Zvartnots airport.

- ✓ Activities in the scope of the **“Rural development/reduction of territorial discrepancies: significantly decrease unproportional territorial development, contribute to increase of rural population revenues”** intervention include: provide quality and accessible local public services across *marzes*; provide logistical, infrastructure and business support for sales of agricultural products; prepare development programmes for priority industrial/manufacturing sectors; investment plan for development of regional/*marz* infrastructure; provide financial support for business start-ups in highland and border regions; provide broad-based infrastructure projects aimed at socio-economic development.
  
- ✓ Having identified the priority interventions, bottlenecks impeding successful implementation of these interventions were identified and prioritized based on potential impact and feasibility. Regarding youth employment policies, the main bottlenecks are: (1) lack of information and low awareness of youth about state employment programmes and activities provided by Youth Centers, (2) low awareness among youth of existing job openings, and (3) low motivation of employers to hire youth. Regarding the vocational education system, the primary bottlenecks are poor coordination between the existing educational institutions, employers in both private and public sectors, and employment agencies. In the area of business and investment environment, the main bottlenecks are: low quality and insufficient financial and business consulting services for new and existing businesses; low awareness of citizens, particularly youth and women, of support programmes for small business development; insufficient financing and low affordability of loans for rural women and youth. The priority bottlenecks that impede sustainable rural development are lack of access to agricultural markets, extension services, quality inputs, and programmes to stimulate agricultural production and employment. Some cross-cutting bottlenecks stifling development of the overall business environment include availability of affordable financial services for the general public, lack of coordination between private sector and public agencies and other key stakeholders involved in youth employment, and lack of financing for special territorial initiatives in specific rural localities.
  
- ✓ To overcome these bottlenecks, numerous short- and medium-term solutions are suggested. In order to accelerate the implementation of existing youth employment policies, the following near term solutions have been identified based on impact on beneficiaries (youth) and feasibility of implementation, and include the following: awareness raising activities of employment programme and youth centers’ activities; creating an integrated labour market database; providing incentives for employers to hire youth (e.g. tax breaks); and establishing a strong link between youth centers, private sector organizations, and education institutions. The main solutions that have been proposed for the vocational education system are the review of current vocational education curricula to improve the match with the labor market demand, and the development of a public-private partnership (PPP) between educational institutions and private sector. Three solutions have been identified to improve the business and investment environment in the near term: improvement in the efficiency and effectiveness of SME support services; new affordable loan services and other business support services for entrepreneurs-beginners; promoting systematic exchange of experience and information among (and for) female entrepreneurs, including the provision of business consultancy services targeted for women. The priority solution for the reduction of the territorial discrepancies lies in improving the coordination among state and non-state funded rural development initiatives, as well as promoting and scaling up successful pilot programmes targeting youth in rural areas.

- ✓ In order to achieve sustainable youth employment, integrated and comprehensive actions to improve the implementation of cross-cutting social, economic and financial policies and the effective functioning of institutions are required. Incentive mechanisms targeting public and private sector employers, providing access to financial and business development services, and localized programmes (based on territorial specifics ) that support SME development in rural areas are also needed.
- ✓ The solutions addressing structural issues that require longer-term commitments from all partners are also presented in this report for further consideration by key stakeholders. In the area of employment policies, two solutions have been proposed. The first involves strengthening regional and other export markets by facilitating the export and transit of goods between main trade partners and Armenia, and supporting value-added measures to improve the competitiveness of Armenian exports. The second involves developing legalized and protective regional labour market exchange services. Regarding SME/business development, identifying and addressing specific structural constraints for developing successful SMEs run by women and youth, including the provision of financial and business development services, has been proposed as a priority medium-term solution. Regarding rural development/reduction of territorial disparities, two solutions are proposed: promoting specific value-added opportunities, for value-addition of main agricultural and other exports, similar to “Fruit Armenia,” eco-tourism, or other special initiatives; scaling up successful pilots by linking to regional trade markets.
- ✓ Cross-sectoral and cross-cutting collaboration is essential to improve conditions for youth employment. Through the MAF Action Plan, the following key partners have been identified: the Ministry of Territorial Administration, the Ministry of Economy, the Ministry of Labor and Social Affairs, the State Employment Services Agency, the Ministry of Education and Science, the Ministry of Sport and Youth Affairs, the Chamber of Commerce and Industry, the National Statistical Service, SME DNC, the National Centre for Vocational Education Training and other associations and private sector partners, and donors such as the World Bank, GIZ and others. UN agencies, especially UNDP and UNIDO will also support the implementation of high priority solutions in the short- and medium-terms. We estimate that US\$ 2.6 million is required to implement these high priority solutions in the near term.



# INTRODUCTION

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It is well-known that 2015 is the target date set for MDG achievement. Less than four years remain until that date. While the current view suggests that MDGs remain achievable in many countries, success requires analysis of the nature and scope of remaining problems, and development of priority solutions, where priority is based on their impact for key target populations and the feasibility of implementation. Acceleration of progress in the remaining period is possible with collective efforts and resources.

In 2010, progress on the MDGs achievement was comprehensively reviewed, including the impact of new challenges and realities, such as the global economic and financial crises, climate change, as well as new evidence and innovations to accelerate and sustain progress towards the MDGs. In order to conduct such a review at the country level, the UN has developed and tested the MDG Acceleration Framework (MAF).

This framework will help countries to analyze why they are lagging behind on specific MDGs, prioritize the bottlenecks impeding progress, and identify collaborative solutions involving governments and all relevant development stakeholders. It could also help to address new challenges related to meeting the MDGs in a particular country context, and integrate new evidence such as the strategic importance of energy and technology, the centrality of gender equality and women's empowerment in relation to specific MDGs targets and indicators, and innovations in national and sub-national efforts to accelerate and sustain progress towards the MDGs. As a result of the MAF, a focused, agreed-upon Action Plan addressing the specific MDG that rallies the efforts of governments and its partners, including civil society and the private sector, is expected.

The UN Country Team (UNCT) in Armenia, in close collaboration with the Government and

other partners, applied the MAF to Target 2.A of MDG-1 "Achieve full and productive employment and decent work for all, including women and young people". In particular, experts studied the impediments causing slow or decelerating progress of MDG-1, Target 2.A, focusing on poverty and youth employment in rural areas, and considering cross-sectoral and cross-cutting issues. Additionally, a workshop involving stakeholders and partners was organized and attended by representatives of relevant Government offices, UN specialized agencies, and civil society organizations (including those representing youth, women, minority groups and marginalized) to ensure that their views were reflected in the assessment. As a final result of all implemented works, an Action Plan, built on the existing knowledge and experience, as well as in-country policy and planning processes, was developed. The MAF Action Plan takes into account, where relevant, issues of inequalities between geographic regions and proposes solutions accordingly.

The following report summarizes the UNCT and Government's work using the MAF methodology. The first chapter illustrates the socio-economic situation in Armenia, MDG 1, Target 2 (A) identifying employment trends, as well as business environment conditions, particularly as they relate to youth-led businesses and youth employability in Armenia's rural areas. The second chapter presents recent sectoral reforms (for each strategic intervention towards increasing youth employment in rural areas) implemented by the Government and partners. Chapter 3 includes disclosure and evaluation of main activities that have been implemented in the scope of the strategic interventions. In the fourth and fifth chapters, bottlenecks impeding effective implementation of above-mentioned activities, as well as their possible solutions are described. The last chapter comprises the MAF Action Plan.



## **CHAPTER I – Progress and Challenges in Achieving the Priority MDG 1(2.A) in Armenia**

## 1. SOCIO-ECONOMIC SITUATION IN ARMENIA



The Republic of Armenia (RA) is divided into 10 *marzes* and Yerevan city (12 administrative districts), which includes 49 urban and 866 rural communities.

Armenia is a developing country with a high Human Development Index (HDI equal to 0.716, 86th among 187 countries, UN 2011). Since 2002, Armenia has been classified as a lower middle income country.<sup>1</sup> Recorded economic growth between 1994-2001 moved Armenia up from the low income status it held from 1991 to 2001, and created a basis for the double-digit growth experienced between 2002-2007. Average GDP per capita was US\$ 804.3 during this period (increasing from US\$ 740.2 in 2002 to US\$ 2,853.3 in 2007) and average economic growth was 13 percent.

Construction, agriculture, manufacturing and trade were the major sectors contributing to the double-digit growth and rapid development in the country, with construction sector playing the prominent role. On average, about 70 percent of all employed people were occupied in these four sectors. During 2002-2007 agriculture sector has been leading in terms of employment, ensuring

on average more than 45 percent of the total employment (almost the half).

The economy of Armenia, like other countries in the world, could not withstand the consequences of the latest financial-economic crisis. The first results of the crisis were evident in 2008, when the GDP real growth rate decreased twice as compared to the previous years, falling by 6.9 percent. By 2009, the economic crisis contributed to an economic decline of 14.1 percent.

Nowadays, Armenia is still in a stage of post-crisis recovery: the country started to overcome the crisis consequences slowly, and in 2010, the economy recorded a real GDP growth of 2.1 percent. By 2011, the Indicator of Economic Activity had a value of 5.9 percent<sup>2</sup>, with a forecasted 4.6 percent.<sup>3</sup>

Construction sector was hit worst by the crisis; its share in the gross output decreased, leaving many jobless. Nevertheless, agriculture, construction, manufacturing and trade remain the major sectors of the economy, accounting for 64 percent of the GDP in 2010, and remain the focus in terms of development.

Armenia's economic prosperity in the early 2000s reduced the incidence of poverty. Pro-poor public programmes and those implemented by donor society contributed greatly. In 2008, the percentage of the population living in poverty was only 23.5 percent, falling by 11 percentile points from that of 2004 (34.6 percent). However, in 2009, the negative impact of the economic crisis worsened living conditions among different groups of society, thus weakening achievements of previous years. Poverty incidence in 2010 increased to the level of 2005.

<sup>1</sup> Source "World Bank Analytical Classifications" at <http://data.worldbank.org/about/country-classifications/a-short-history>

<sup>2</sup> January-December 2011 as compared to the same period of 2010.

<sup>3</sup> IMF, "Regional Economic Outlook" report, October 2011

While poverty incidence is higher in urban areas of Armenia (excluding Yerevan) at 37 percent than in rural areas, 28.4 percent,<sup>4</sup> poverty incidence varies considerably by *marzes*. In 2010, it was comparatively low in Tavush and Syunik *marzes* (26.1 percent and 26.8 percent, respectively, calculated with a methodology developed in 2010). In Shirak and Kotayk *marzes*, poor people accounted for 48.3 percent and 46.8 percent of the population, respectively. In Yerevan, poverty incidence was 27 percent.

Poverty analyses by age groups indicate that in 2010, elderly people (65 years and more) accounted for about 11 percent of those living in poverty; about 18 percent were the youth (15-24 years), and children (14 and below) accounted for 22 percent. Larger households, especially those with 3 and more children and elderly members, are at higher risk to become poor. Female-headed households are poorer as compared to male-headed ones. Education also is a significant factor determining poverty incidence: people with higher education have lower risk of falling into poverty.

Looking back to the years of double-digit economic growth, we can easily conclude that consistent with adding new workplaces, reducing unemployment and increasing labor income, there was a trend of significant poverty reduction. This trend was aided by pro-poor public programmes, and increased effectiveness of the social benefits system of over time. Nevertheless, the number one measure among those aiming at poverty reduction has been ensuring employment of the population.

Employment, as the most important precondition for poverty reduction, is among MDG 1 targets.

<sup>4</sup> Poverty calculation methodology changed in 2010, and according to the new methodology, poverty level was 34.1% and 35.8% in 2009 and 2010 respectively (a 3-level assessment was applied). The poverty indicator values presented in the text are based on the old methodology.

## 2. MDG 1 (2.A) status and employment trends in the Armenia

The Millennium Declaration was signed by 189 states, including Armenia, at the UN Millennium Summit held in New York in 2000. Eight goals were set, with 18 specified targets that should be achieved by 2015. Those goals were later modified by participant states in order to take into account particular country features.

At the World Summit in 2005, the UN General Assembly supplemented the targets of 8 MDGs with another 4 targets. According to one of those 4 targets, MDG 1 Target 2 (A)<sup>5</sup>, it is planned to **achieve full and productive employment and decent work for all, including women and young people**. Inclusion of this target into the MDG framework is further evidence of the prominent role given to employment in the poverty reduction process.

In 2010, UNDP Armenia published a “Second MDG National Progress Report” which assessed achievement of MDG targets with a special scale<sup>6</sup>: MDG 1 Target 2 (A) achievement was assessed as “unrealistic”.

The following indicators were selected for Target 2 (A) for Armenia:

<sup>5</sup> Corresponds to the MDG 1 Target 1.B in the reviewed list of MDGs. The list is available online at: <http://mdgs.un.org/unsd/mdg/Host.aspx?Content=Indicators/OfficialList.htm>

<sup>6</sup> The report is available online at: [http://undp.am/docs/Armenia\\_MDG\\_National\\_Progress\\_Report\\_2010.pdf](http://undp.am/docs/Armenia_MDG_National_Progress_Report_2010.pdf)

**Table 1. MDG 1, Target 2(A) indicators and their target values by 2015**

Indicator	2005	2006	2007	2008	2009	2010	Target value in 2015
GDP per person employed, in constant 2005 PPP 1000 international dollar	11.4	13.4	15.6	16.8	15.0	15.2	>31
Employment rate (persons aged 15 years and over), percent	42.0	43.8	48.9	51.9	48.1	49.6	>50
Employment rate, female, percent	30.2	32.1	39.0	42.0	40.9	41.1	>45
Employment rate, male, percent	56.7	59.0	61.6	64.6	56.7	59.9	>56
Youth (age 15-24 years) unemployment rate, percent <sup>b</sup>	54.6	55.9	57.6	36.7	40.8	38.8	<30
Proportion of employed population living in poverty (national poverty line), percent							<5
Proportion of informally employed in total non-agricultural employment, percent	22.9	24.8	19.9	22.3	19.2	18.8	<16

As seen in table 1, it is obvious that three indicators are problematic: GDP per person employed, female employment rate, and youth unemployment rate. In analyses of female and youth employment, we especially focus on rural areas because:

- migration from rural areas increased in recent two years, and
- 60 percent of domestic migration is from rural areas;
- the vast majority of employment is in agriculture, which is a low-paid sector and not attractive for youth;
- low diversification of working areas.

rural areas. People formerly working in industry faced difficulties with effectively organizing agricultural works.

Before discussing the indicators presented in the table above, let us discuss employment situation and labour market dynamics in detail.

#### **Regulatory and legislative basis for employment**

As part of the Soviet Union, cities and towns within the Armenian republican jurisdiction were considered urban settlements; villages and districts were considered rural settlements with little formal administrative jurisdiction. After Armenia gained independence, and lands privatized, many urban enterprises were closed and released workers were provided with lands in

Legislative bases for employment in Republic of Armenia, as well as social security state guarantees for unemployed people, are regulated by RA “Law on social security in case of under-employment and unemployment” and other legislative acts. They make a legislative base and are illustrated in RA Government annual

action plan, as well as in the Medium Term Expenditure Framework (MTEF) and annual state budget for employment regulation.

- ❖ RA Ministry of Labour and Social Affairs develops and implements annual employment regulation programmes. In order to implement employment regulation state policy, “**State Employment Services Agency (SESA)**” was established in the Ministry as a separate division.

SESA’s main objective is to implement programmes developed to promote and ensure conditions for full and productive employment of the population. SESA’s main functions include:

- ✓ Consulting and recording of jobseekers.
- ✓ Support to jobseekers in finding a job and ensuring employees with required vocational skills and qualification for employers.
- ✓ Implementation of employment regional and national programmes.
- ✓ Implementation of programmes targeted at employment of non-competitive groups in labour market.
- ✓ Analyzing and forecasting of the labour market.

The Ministry also established on 14 December, 2006 “**Youth vocational orientation center**” a state non-profit organization, in accordance with RA government decree N1915 to conduct vocational orientation and career leading informative-consulting services<sup>7</sup>. The scope of services provided by the Center includes:

- ✓ Vocational orientation policy, development of a methodology and tools (for

<sup>7</sup> <http://www.mycareer.am/arm/>

different age groups) and implementation of vocational orientation.

- ✓ Disclosure of abilities, capacities, and preferences of 14-16yearold young people, provision of information and consultancy on education, training and vocational opportunities.
- ✓ Providing information on educational organizations and training centers, conditions and preferences, continuous education, labour market and different sectors of vocational activities.
- ✓ Development and organization of informal training programmes for increasing competitiveness of young people in the labour market, directed to development of skills on first entrance into the labour market, job seeking, proper self-introduction to employers, easy integration in the work environment.
- ✓ Leading jobseekers (including unemployed people) to participate in vocational training, qualification and re-qualification courses in cooperation with the State Employment Agency.
- ✓ Development of a methodology for representatives of target groups (parents and employers) to provide relevant services, if necessary, as well as provision of information and consultancy.
- ✓ In *marzes*, provision of vocational orientation services, focusing on cooperative network creation and development.

**RA Ministry of Sport and Youth Affairs** implements activities particularly related to youth (Department of Youth Policy).

Priorities of the RA State Youth Policy 2008-2012, developed by the Ministry are the following:

- ✓ Ensuring youth with an opportunity to receive education relevant to their aspirations, abilities, and capacities.
- ✓ Promoting employment and creating workplaces, and ensuring opportunity to receive education.
- ✓ Improvement of socio-economic conditions of youth.
- ✓ Promotion of healthy life behavior, and upbringing of well-adjusted, productive youth.
- ❖ From the point of youth employment, it is important to mention the programmes implemented by the **RA Ministry of Education and Science** as well, emphasizing tertiary and higher education (Department of vocational/tertiary/ education, department of higher and post-graduate education, State Education Inspection, Center of Education Programmes).

Programmes implemented by the **RA Ministry of Territorial Administration** are important in terms of proportional territorial development, which reflects local development policy and ensures implementation of local socio-economic development priorities.

- ❖ **RA Ministry of Economy** is authorized to regulate business environment in Armenia. In 2002, “Small and Medium Entrepreneurship Development National Center of Armenia” a foundation was established by the RA Government, whose activities include:
  - ✓ Ensuring a dialogue between SMEs and state;

- ✓ Increasing efficiency and competitiveness of SMEs;
- ✓ Ensuring availability of business development services for SMEs;
- ✓ Expanding the financial opportunities for SME;
- ✓ Promoting innovations and R&D activities of SMEs;
- ✓ Assistance for establishment of new SMEs;
- ✓ Supporting international expansion of SMEs’ activities.

### Employment dynamics in Armenia

After experiencing several double-digit economic growth years, in 2008, employment level was 52 percent in Armenia, but fell to 48 percent in 2009, before increasing to 49.6 percent in 2010.

Let us consider economic growth and employment change trends. During growth periods, the construction sector, accounting for 25 percent of GDP in 2008, provided the main stimulus for economic growth. The number of employed people in construction doubled that year as compared to the previous year. In parallel with this construction boom, the number of people employed in the sector of operations with real estate (renting and service provision) increased as well. In 2009, a year of crisis, when construction sector declined by about 42 percent, the number of employed people decreased by about 18 percent.

Unlike construction, the manufacturing sector recorded growth of 14 percent in 2010, although the number of employed people decreased from the previous year by 6.1 thousand persons, or by 7.3 percent. This result can be explained by two possible factors: capital investments were

made in this sector, thus resulting in increased productivity, or the share of informal employment increased.

Foreign trade is another important factor while analyzing employment by sectors. Main trade partners of Armenia are the Russian Federation and the EU. In 2010, export to the EU accounted for 50 percent of total exports from Armenia.

**Table 2. Economic growth structure and Employment<sup>8</sup> by sectors in Armenia, 2008-2010**

	Economic growth structure, percentage point			Employment by sectors, percent		
	2008	2009	2010	2008	2009	2010
<b>Industry</b>	<b>0.3</b>	<b>-1.0</b>	<b>1.4</b>	<b>11.4</b>	<b>10.6</b>	<b>10.0</b>
<i>Manufacturing</i>	0.1	-0.8	1.2	8.5	7.7	7.0
<i>Mining and quarrying</i>	0.1	0.1	0.3	0.7	0.7	0.7
<i>Electricity, gas and water supply</i>	0.2	-0.4	-0.1	2.2	2.2	2.3
<b>Agriculture</b>	<b>0.6</b>	<b>0.0</b>	<b>-2.7</b>	<b>44.1</b>	<b>45.6</b>	<b>45.3</b>
<b>Construction</b>	<b>2.8</b>	<b>-10.7</b>	<b>0.6</b>	<b>5.4</b>	<b>4.6</b>	<b>5.1</b>
<b>Services</b>	<b>1.7</b>	<b>0.0</b>	<b>1.9</b>	<b>39.1</b>	<b>39.2</b>	<b>39.5</b>
<b>Net Indirect Taxes</b>	<b>1.7</b>	<b>-2.4</b>	<b>1.0</b>	-	-	-
<b>Total, percent</b>	<b>6.9</b>	<b>-14.1</b>	<b>2.1</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: NSS of Armenia

Employment structure by sector has not changed notably in recent years. Between 2004-2010, agriculture accounted almost half of the total employment. In post-crisis 2010, agriculture declined by almost 16 percent, although employment in agriculture remained steady at about 45 percent. Agriculture is a rather vulnerable sector in terms of natural disasters, and such a concentration of employment in this sector is not preferable. Economic decline in agriculture contributes to substantial income reduction and unemployment for a large portion of the population, especially in rural areas. To avoid such a problem, it is necessary to promote agricultural processing and manufacturing in rural areas, as well as to develop rural infrastructure. Processing firms will create demand for agricultural goods cultivated by land owners. Nowadays, when increased agricultural productivity is promoted, development of processing will create new workplaces for people who currently are only occupied on their own land.

Export volumes to Russia and Germany amounted to US \$ 160.5 million and US \$ 132.6 million respectively, or 15 percent and 13 percent of total exports, respectively (see Table 3).

**Table 3. Export structure of Armenia by countries in 2010, US\$ million**

<b>Exports</b>	<b>1 041.1</b>
CIS countries	<b>247.8</b>
<b>Russia</b>	160.5
<b>Turkmenistan</b>	8.9
<b>Georgia</b>	49.0
<b>Other countries</b>	29.4
<b>Non-CIS countries</b>	<b>793.2</b>
<b>Belgium</b>	72.5
<b>Iran</b>	84.8
<b>USA</b>	82.7
<b>Germany</b>	132.6
<b>Great Britain</b>	0.4
<b>Turkey</b>	1.3
<b>Other countries</b>	<b>1 041.1</b>

Source: NSS of Armenia

In 2010, main commodity groups were non-precious metals and products made from them, mineral products, and precious stones and metals.

<sup>8</sup> Both formal and informal

**Table 4. Main commodity groups exported from Armenia in 2010, US\$ million**

Exports	1 041.1
Non-precious metals and products made of them	332.4
Mineral products	306.8
Precious stones and metals	134.0
Ready food Products	131.1
Machinery and equipment	30.1
Plastics, rubber and goods made of them	15.5
Instruments and apparatus	7.3
Textile	6.8
Vehicles	5.0
Other	72.1

Source: NSS of Armenia

Logically, the sectors whose goods are successfully exported from Armenia and account for a big portion in total exports are attractive for investments and thus have a development potential. Therefore, involvement of women and youth into those sectors, as well as their involvement in production of those agricultural products which have exports potential would ensure jobs with higher wages and stability.

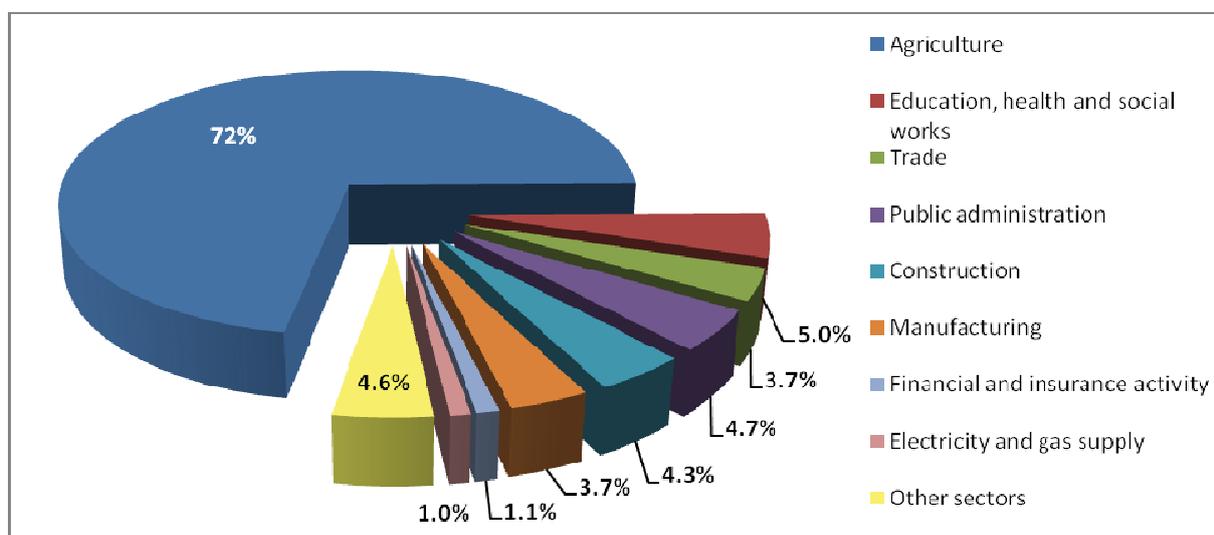
### Employment in rural areas

Nowadays, the level of employment differs between rural and urban areas. If in 2010, employment in urban areas was 40 percent, in rural areas it was rather higher, about 67 percent. To some extent, this can be related to high level of employment in agriculture (about 45 percent of all employed people). However, it is worth mentioning that many people in rural areas that help their family members, would like to have other occupation as a main job instead of continuing partial employment in agricultural sector.

In 2010, only about 28 percent of young people (15-24 age group) living in rural areas were employed, of which 72 percent were employed in agriculture. Additionally, 5 percent of youth were employed in education, health and social works sectors, and another 3.7 percent were in the trade sector. Construction and manufacturing also ensured workplaces for them.

As presented in Figure 1 and Figure 2, women and youth in rural areas were mainly employed in agriculture, even when agricultural products exports are not among 3 most exported commodity groups.

**Figure 1. Youth employment by main sectors in rural areas, percent**



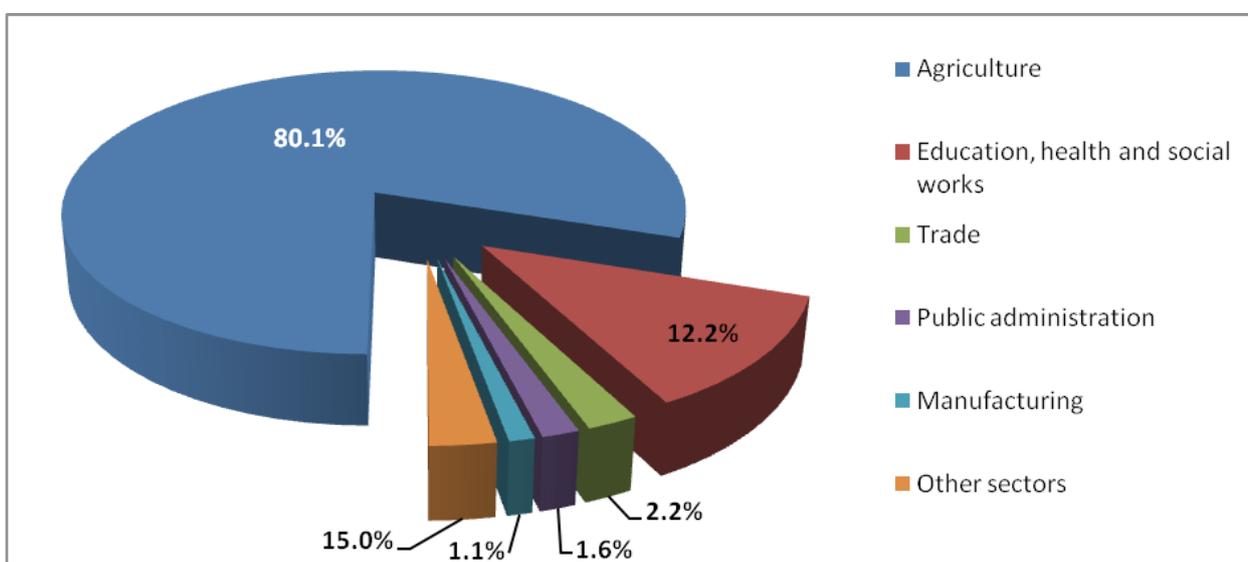
Source: Authors calculations based on the databases of the ILCS survey of the NSS of Armenia

From this point, it is very important to contribute to business development in rural areas to create new workplaces and use potential of young motivated people. Currently few employment opportunities, and an underdeveloped social and cultural life in rural areas, not only lowers the likelihood that youth will return to their communities after graduating from higher education institutions in Yerevan or other towns, but also increases the likelihood that they will enroll in higher or technical education. About 60 percent of young people in rural areas have secondary education, and about 17 percent and 14 percent have higher education and college education respectively.

Female employment is an issue in rural areas of Armenia, too. In rural communities, women are mainly employed in agriculture, education, health and social works sectors, as well as in trade. In 2010, female employment in rural areas was about 65.5 percent which was less than male employment. At the same time, female unemployment in rural areas exceeds that of male unemployment (6.4 percent and 5.8 percent respectively). Moreover, youth unemployment rate in rural areas was about 22 percent exceeding average rate of rural unemployment by three times (average rural unemployment rate was 6.1 percent).

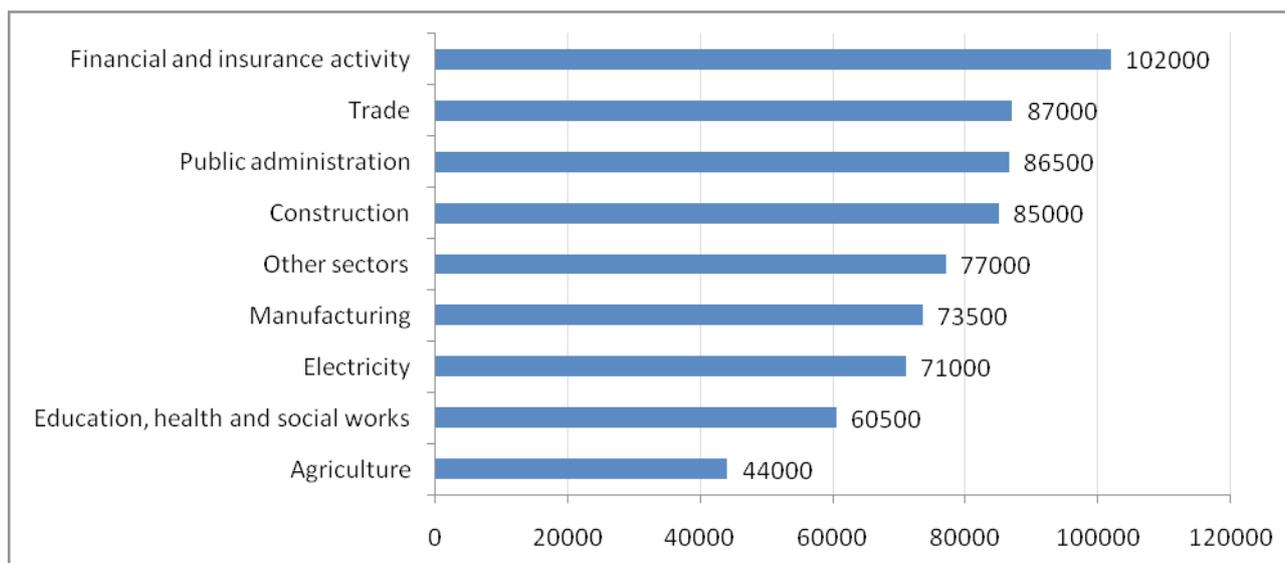
Below, average labour incomes by sectors of economy in rural areas are provided, calculated based on databases of the ILCS 2011 survey of the NSS. As seen in Figure 3, in 2010, average labour incomes in agriculture, which was the main sector for employment, were the lowest, about AMD 44,000 monthly on average (or US\$ 117.8 with average annual exchange rate or 211 int. dollar, PPP adjusted). Meanwhile people employed in financial and insurance sectors received about AMD 102,000 monthly on average (or US\$ 273 with average annual exchange rate or 490.1 int. dollar, PPP adjusted).

**Figure 2. Main sectors of female employment, percent**



Source: Author calculations based on the databases of the ILCS survey of the NSS of Armenia

**Figure 3. Average labour incomes by sectors in rural areas, AMD**



Source: Author calculations based on the databases of the ILCS survey of the NSS of Armenia

It turns out that in rural areas, young people are mainly employed in sectors with incomes lower than the average. Increased involvement of youth in non-agricultural sectors would notably increase their incomes in rural areas.

### **Informal employment**

Below we discuss informal employment among women and youth in rural areas. According to the non-formal sector and non-formal employment in Armenia<sup>9</sup> survey conducted by the National Statistical Service (NSS) of Armenia<sup>9</sup> with financial and technical support of the Asian Development Bank (ADB), in 2009, the majority of workplaces, 52.4 percent, were created by organizations in formal sector, followed by informal organizations, 37.8 percent, and households, 9.8 percent. About 52.1 percent of total employment was assessed as informal (which is equivalent to 621,700 informal jobs). Informal employment was higher among women than men, 53.4 percent and 51 percent respectively.

Informal employment is especially high in agriculture, about 97.8 percent, in construction, about 56 percent, and in trade, about 49 percent.

Informal employment is essentially absent in financial and insurance sector, real estate, and international organizations. In 2010, in rural areas, about 80 percent of employed young people aged 15-24 were informally employed. At the same time, informal female employment level in rural areas was higher than male informal employment, 82 percent and 76 percent respectively. In general, informal employment level in rural areas was notably higher than the national average (50.4 percent), mainly due to the fact that the vast majority of rural population is self-employed, or hired by other farms based on oral agreements.

### **3. Analysis of Target 2 (A)**

Now having the employment snapshot in Armenia, we will discuss feasibility of the Target 2 (A) indicators situation in Armenia.

Final output per employed<sup>10</sup> created in the country and presented in international comparable prices continuously grew during 2005-2008, making 16.8 thousand international dollar per employed. In 2009, a year of crisis, the value of this indicator decreased by about 11 percent and amounted to 15 thousand international dollars.

<sup>9</sup> Available at [http://armstat.am/file/article/informal\\_sect\\_2010a.pdf](http://armstat.am/file/article/informal_sect_2010a.pdf)

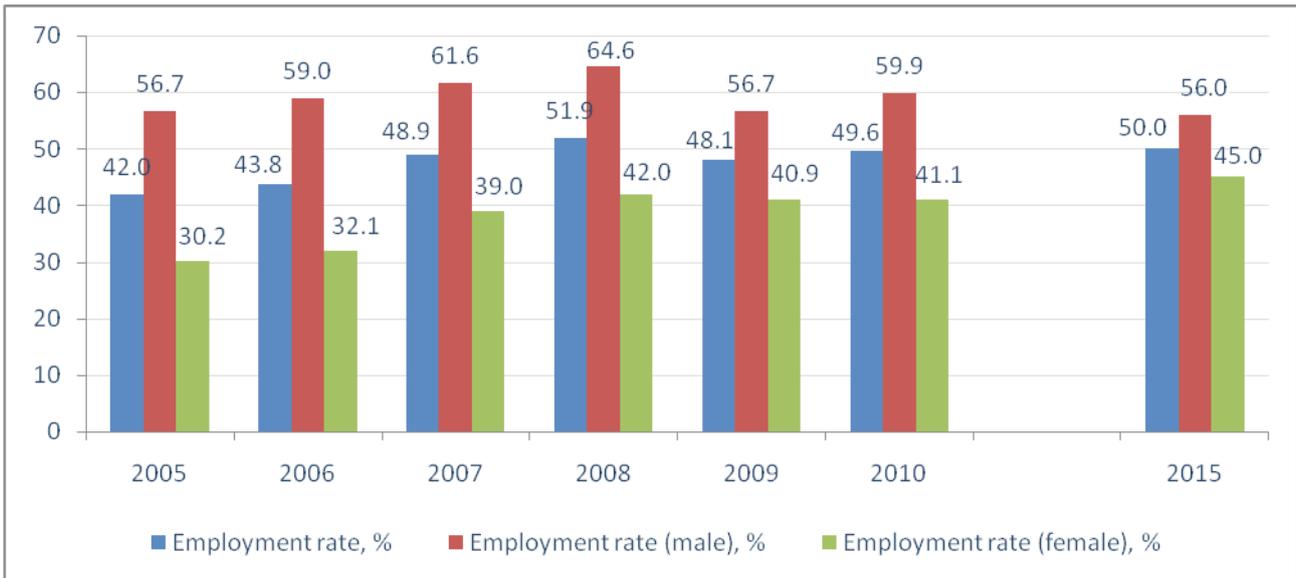
<sup>10</sup> Both formal and informal.

Though in 2010, the final output per employed grew by 1.3 percent, making 15.2 thousand international dollar, the indicator's value remained only half of the targeted 31 thousand dollar value.

Gross domestic product per employed person can be considered an indicator assessing labor

Regarding the indicators describing population employment rate (total employed people/labour force) here we face problems with low female employment rate and high youth unemployment described above. In 2010, male employment rate already exceeded the targeted 56 percent (see Figure 4). Also, as an alternative indicator, an employment-to-population ratio was

**Figure 4. Employment rate (total, male and female), percent**



Source: NSS, Labor force in Republic of Armenia, 2001-2006

**Social snapshot and poverty in Armenia, 2008-2011**

productivity (output produced by one employed person). A low level of this indicator indicates a general low productivity of the workforce in the country. And, as it is planned to achieve at least 31,000 international dollars by 2015, employment productivity should grow.

*Improvement of this indicator mainly depends on, and can be a consequence of, development in various sectors of the economy, overall increase in employment and labor income, thus it is not a subject to direct interventions. The indicator will increase when GDP growth rate exceeds employment growth rate. For this purpose, it is necessary to apply advanced technologies to the economy, production should operate more effectively, and workforce should be more qualified.*

36.4 percent in 2010.

Male employment rate was about 60 percent in 2010, and even if it remains unchanged in coming years, there will be problems with ensuring achievement of the targeted value anyway.

The picture is different for female employment rate. Recent trends are presented in the Figure 4. The indicator demonstrated continuous growth during the pre-crisis years, and if the financial-economic crisis did not hit the economy of Armenia, achievement of the target value of female employment rate by 2015 would be realistic. The value of the indicator in 2008 was lower than the target value by 3 percentile points, and with the previous growth rates, it would achieve its target value in a year.

However, female employment rate decrease in 2009, and increased only by 0.2 percentile points in 2011, resulting in 41.1 percent. If such growth trends continue, target achievement is unlikely. Analyses of female employment in rural areas showed that gender issues exist in rural areas too. That is why strong interventions are necessary here to accelerate progress towards the achievement of MDG 1.

It is worth noting here the assistance provided to women on maternity leave. First, those women are provided with temporary disability benefit for the period of maternity leave. Second, and more importantly, if a woman has to leave her work for a period longer than the maternity leave, she receives child allowance from the Government for two years, and the employer has to ensure her the same position when she returns. This relationship is regulated by the RA Labour Code and RA Law on Temporary Disability Benefits.

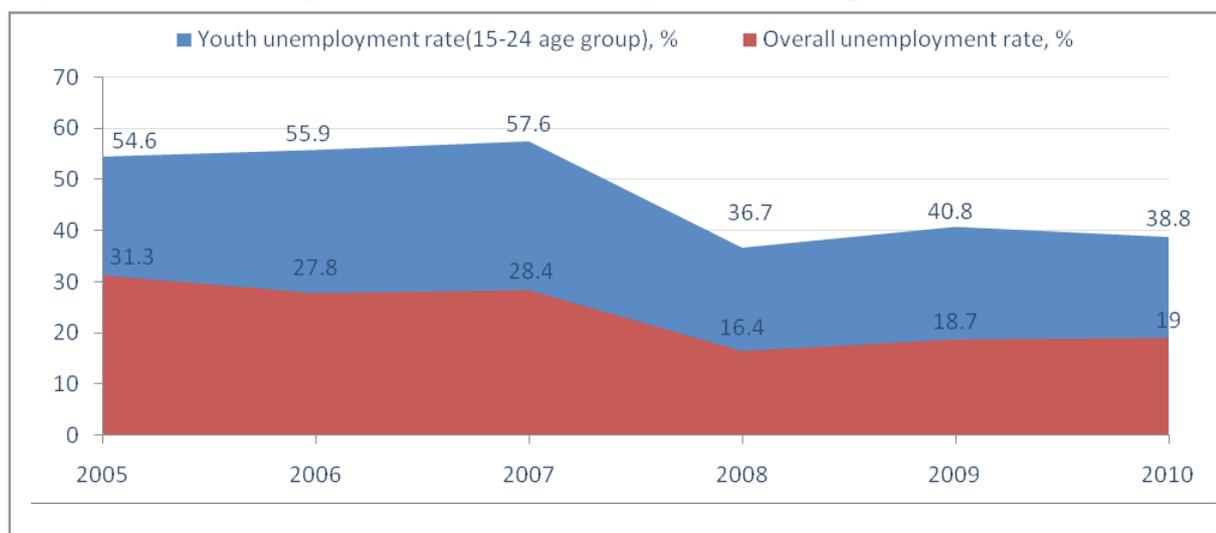
Youth unemployment indicator's target value achievement is another burning issue: in 2010, it reached nearly 39 percent, exceeding its targeted minimum value by 9 percentage points. Overall unemployment and youth unemployment rates are presented in the Figure 5 below.

As is obvious in the figure, as well as from the analysis provided above, youth unemployment rate is considerably higher than the overall unemployment rate.

We also give importance to **informal employment rate in non-agricultural sector** which reached 18.8 percent in 2010: it should decrease by 2.8 percentage points in order to reach its targeted value. It is evident that the indicator has demonstrated a decreasing trend during recent years, which is a result of reforms and administrative strengthening, as well as increased awareness and literacy among the population. As we saw above, informal employment is especially high in rural areas due to high level of self-employment and works carried out based on oral and other informal agreements.

**Summarizing, we give the highest importance to a reduction of youth unemployment in rural areas. Targeting young people is effective for a number of reasons: they promptly respond to employment programmes and get involved, easily absorb technological advancements and are flexible to comply with employers' requirements.**

**Figure 5. Overall unemployment and youth unemployment rates, percent<sup>1</sup>**



Source: NSS, Labor force in Republic of Armenia, 2001-2006

<sup>1</sup> 16-24 age group was taken as youth in 2007. According to the methodology applied for 2001-2007, people who had not seek for job in 4 weeks prior to the survey but were ready to start working were considered unemployed (EUROSTAT methodology). However, the NSS based its calculations for 2008 on the ILO methodology which considers those people economically inactive. Changes in methodology resulted in considerably lower level of unemployment for 2008 as compared to the previous year.

Focusing on youth as a target in various employment programmes will also benefit young unemployed women, and thus improve the overall female employment rate.

***In the mid-term perspective, reduction of youth unemployment is feasible through appropriate sectoral development policies, including targeting of youth through public employment schemes, as well as through continuous investments to the improvement of the business environment.***

### **Poverty in rural areas**

As mentioned in the socio-economic situation described above, in Armenia's rural areas, poverty level is somewhat lower compared to urban areas (excluding Yerevan), at 36 percent and 45 percent respectively. Poverty incidence doesn't vary much by gender in rural areas. Male poverty level was about 35.8 percent and female poverty level was about 36.1 percent, although female-headed households are at higher risk to be poor.

Poverty analysis by age groups in rural areas indicates that children under 15 are at the highest poverty risk. In particular, among 0-5 and 6-9 age groups poverty level was about 43 percent and 46 percent, respectively. Households with children comprise a bigger portion in total number of poor households and are thus more vulnerable. Poverty in 15-24 age group was about 36 percent, and they made about 20 percent of the total poor.

Education is an important factor determining poverty incidence. In rural areas, like at national level, poverty was comparably lower among people with higher education, about 22 percent, and among people with middle level of professional education, about 29 percent. The incidence of poverty was about 42.5 percent among people with primary education. More than 38 percent of people with secondary education live in poverty.

This implies that people with professional education are better positioned to cope with socio-economic difficulties

Analyzing poverty incidence in rural areas by employment sector and type, we conclude that in 2010, poverty among employed people was about 31 percent and more than 44 percent among unemployed people. More than 77 percent of poor employed people held jobs in agriculture, and about 4 percent in construction sector. It is worth mentioning that average wages are comparably lower in the agricultural sector.

Poverty among young people, especially in rural areas, can be mainly explained by obstacles to youth employment. Analysis shows that the unemployment rate is quite high among youth, regardless of the fact that people who have land and get some harvest are also considered self-employed.

## Migration and remittances

Migration remains a serious demographic problem in Armenia. In 2010, Armenia was among the top thirty emigrating countries in terms of percentage of the population. The main destination countries for migrant workers from Armenia are the Russian Federation and other countries in the Commonwealth of Independent States (CIS)<sup>11</sup>. Evidence suggests that young people aged 18 to 35 constitute a large share of migrant workers. In 2010, people aged 20-39 accounted for about 45 percent of people leaving Armenia; those aged 20-24, 12 percent.

The number of people leaving and returning to rural areas during 2002-2010 exhibited a cyclical trend. For example, during 2003-2005, the number of people leaving rural areas continuously increased, then, in 2006 it decreased and again increased in the following two years. In 2009, the number of people leaving again decreased. Almost the same trend was noticed in the number of people returning to rural areas (Figure 6).

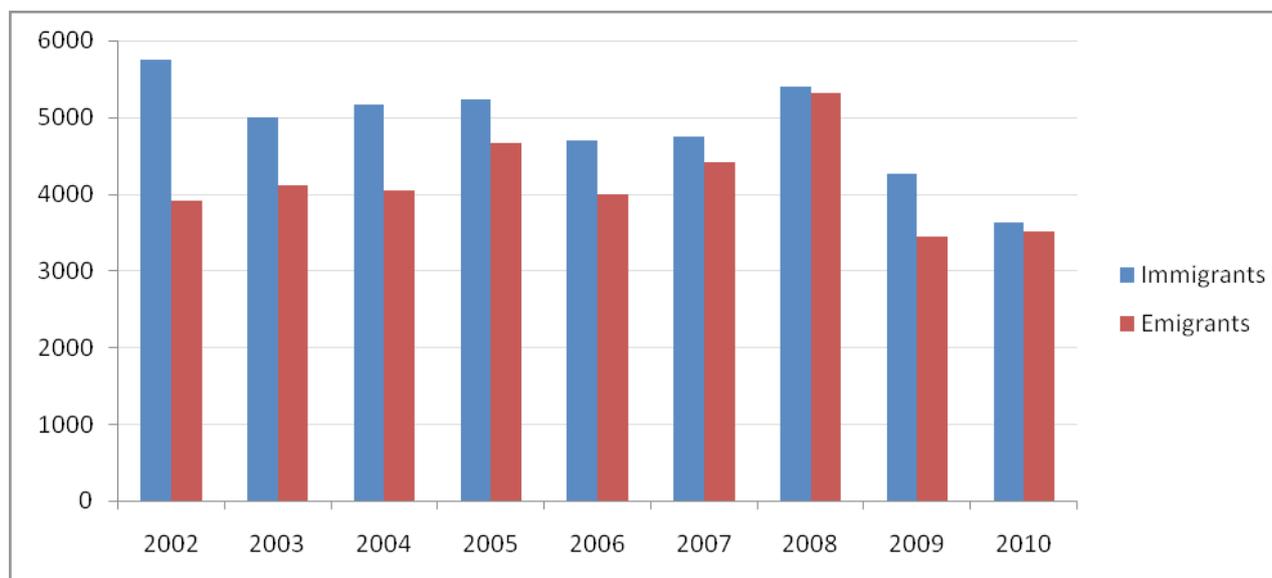
Migration is a problem not only for demographic

In 2009-2010, the number of people in 15-24 age group fell to 239 thousand in 2010 compared to 246.1 thousand in 2008.

Remittances to Armenia are a main source of income for poor households. In 2011, money of non-commercial nature received by individuals from abroad through Armenian banks totaled US\$ 1.3 billion, which was mainly used for food consumption and other basic needs. Those transfers were mainly from the Russian Federation and the USA. Money transfers are usually received from people in permanent or temporary migration, and are mainly used for consumption.

In the context of the present analysis, labour migration is given special importance. In 2010, labour migrants comprised almost 60 percent of all migrants, the majority going abroad. Among labour migrants, young people accounted for almost 14.8 percent. The share of women among all migrants was rather small, 3 percent, and it is especially small in case of external migration,

**Figure 6. Migration in rural areas of Armenia, persons**



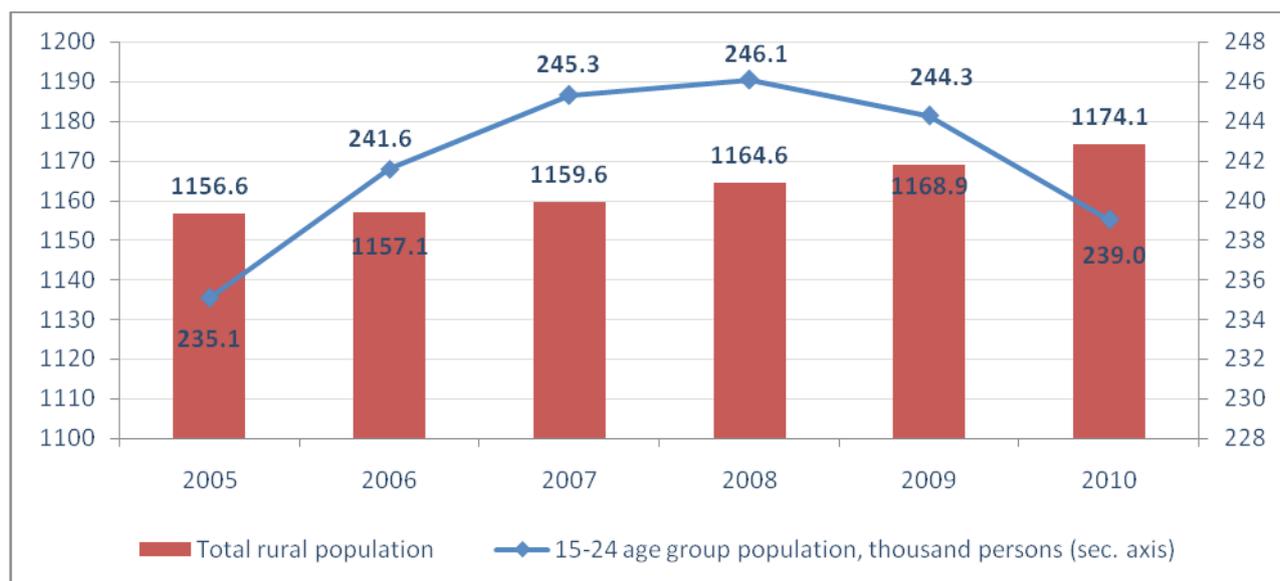
Source: NSS of Armenia, Armenian Demographic Handbook, 2011

reasons, but also from the point of labour resources, as mainly young people, especially from rural areas, leave the country.

1 percent. In 2010, about 45 percent of labour migrants were from urban areas; 55 percent from rural areas.

<sup>11</sup> "Youth employment in Eastern Europe: Crisis within the crisis", International Labour Organization (ILO), June 2011

**Figure 7. The number of population and youth in rural areas (as of the end of year), thousand persons**



Source: NSS of Armenia, Armenian Demographic Handbook, 2011

#### 4. Business environment and support infrastructures

A favorable business environment implies not only accessibility of affordable financial resources and equal competitive conditions, but also development and application of simple and low-cost administrative procedures, and ensuring effective public regulation and tax and customs policies.

Ensuring a favorable business environment will contribute to the establishment of new enterprises, as well as to an expansion and prosperity of existing firms in various sectors of the economy.

Entrepreneurship is an important dimension of employment promotion. Promoting and developing entrepreneurship among young people will yield substantial results. Young people tend to exhibit initiative and willingness to take risk. Moreover, young people express and are receptive to new ideas and innovative approaches. Many strive to establish and run their own business. Businesses run by youth, especially in rural areas, not only will contribute to prosperity of those communities, but also contribute to unemployment reduction especially among youth.

Business environment improvement is given a special importance in the Election Programme of the President of Armenia. In particular, the programme seeks to create the best conditions for business and investment by ensuring equal competitive conditions, reduction of risks, supporting formation enterprises, development of innovative industry and high-value service, industrialization of agriculture and the full launching of the manufacturing and reprocessing market chain, more affordable and accessible financial services and other reforms.

Various strategic documents, such as the Sustainable Development Programme, RA Government Programme for 2008-2012 emphasize the importance of improving the overall business environment. Besides, in 2008, the Government adopted a concept note on “Center of Excellence” nationwide project for Armenia’s business and investment environment.

During recent years, the Government of Armenia has implemented a number of business environment reform measures. In particular, procedures for starting and registering a business were simplified, reducing the time required from 20 days to 2 days. Second, “one stop shop” principle was

applied, which significantly decreased number of activity types for which license was required, etc. Third, the frequency of tax payments was reduced, and quarterly profit tax prepayments and minimal payments replaced monthly payments. An online system of submitting and receiving tax reports was adopted. Fourth, the procedures required and time involved in getting construction permits were reduced and simplified. Export procedures and requisite documentation were considerably reduced, and the number of commodity groups subject to obligatory certification was decreased to 16 from 65. Similarly, “one stop shop” for providing country origin certificate, as well as frequency of entities inspection was reduced, etc.

Each year the WB issues “Doing Business” report which includes calculation of an “Ease of doing business” index and the ranking of over 180 countries. In 2012, Armenia took 55<sup>th</sup> place among 183 countries, improving its position of 61<sup>st</sup> from the previous year. Our country improved its position to some extent for indicators to start a business, construction permits, getting credit and paying taxes, as well as resolving insolvency indicators.

However, so far there are no special tax privileges for start-up and established SMEs. As mentioned above, policy reforms are related to procedures and practices and not tax rates and/or taxation regimes. In this field, business support initiatives of the Government of RA are of a “single initiative” nature rather than covering the whole sector or region (e.g. the Government can decide to postpone VAT payment for 2-3 years while importing equipment for a particular enterprise based on certain criteria).

Based on the index, Armenia lags considerably in collection of taxes and the overall trade performance. That is, the main obstacles faced by Armenian entrepreneurs relate to tax payments (frequency of reporting, and time and costs necessary to prepare and submit those reports), and

requirements on documents for exporting and importing, as well as financial and time costs. However, procedures have been simplified in both sectors, and positive results are expected.

Public and private organizations have been established and act in Armenia supporting enterprises in various means. Those support organizations/projects can be conventionally divided into two main groups: state institutions (and/or with state participation) and international organizations/donor funded projects.

**The first group includes organizations such as The Chamber of Commerce and Industry of the Republic of Armenia, SME Development National Center of Armenia (SME DNC), Armenian Development Agency (ADA), Fund for Rural Economic Development of Armenia (FREDA) and few others.**

**The second group is mainly represented by USAID funded projects supporting SME and EBRD Business Advisory Services (BAS) Programme offering general type of SME assistance and Rural Development Programmes with agricultural and rural communities’ development focus (such as: Rural Assets Creation Programme (RACP)/IFAD, SDC funded projects, USDA/CARD etc.).**

Most of the above organizations and/or projects offer different technical and financial assistance packages such as business and information advice, research and exchange, training and individual consulting as well as co-funding for using professional consulting services and commercial credit (e.g. loan guarantees etc.).

While business support schemes with state ownership and/or participation are more of institutional nature with limited but relatively secured financing from the state budget, the second group represents mostly donor-funded projects of certain duration (though some local imple-

menting organizations continue operations at a smaller scale after formal completion of projects: CARD, SDA/SDC etc.).

None of the above-mentioned organizations and/or business support schemes has a special focus on youth in terms of provided assistance package, though usually youth (and women) are encouraged to participate in organized trainings, seminars, exchange and other “start-up entrepreneurs’ support” initiatives. However, the majority of general SME assistance receivers are SMEs with a certain level of sophistication (e.g. years in business/history, turnover, management requirements, credit history, financial position, collateral etc.). Currently, there are no pre-conditions set for assisted SMEs in terms of employing youth, women, or other vulnerable groups. Therefore, the overall impact of those assistance schemes is limited to general economic development (e.g. growth of sales, production volumes, registering new companies etc.) with only indirect consequences for reducing youth unemployment.

In this context, Rural Development programmes are more effective in terms of supporting those youth living in rural areas and involved in agricultural activities: animal breeding, horticulture etc. Expanding economic opportunities for rural population through technical and financial assistance, and improved access to agricultural markets, allow youth living in rural areas to seek income and employment opportunities in their communities rather than looking for alternatives in Yerevan or abroad. In these programmes, usually there are no formal requirements for farmers to be legally registered; having a credit history etc. and assistance approaches are more flexible, depending dependent on the context. Nevertheless, as was mentioned earlier, those projects are usually limited in terms of project geography and duration.

## **5. Youth-led businesses and youth employability in rural areas**

Youth employment has two major aspects that should be distinguished: formal employment and self-employment/ entrepreneurship opportunities.

The problem of unemployment does not begin when a young graduate is faced with an obligation of having a relevant work experience and/or professional expertise. The problem starts when a graduate of a secondary school has almost no assistance in quality professional orientation and is mostly led by parents and trends in choosing his/her future profession.

Nowadays, an interesting situation exists in Armenia’s labour market. Employers require young employees with quality education, skilled and experienced. However few employers are ready to provide financing to train their employees or organize internships for young specialists. Moreover, the education system in Armenia nowadays is somehow weak in terms of modern requirements and advanced educational technologies. This creates serious obstacles to the development of young specialists.

Though RA Ministry of Education and Science and RA Ministry of Labour and Social Affairs implement some education and training programmes (in particular, organize internships for youth lasting several months in different organizations, provides them with student benefits), for better results, support and motivation of employers is necessary. It is important that employers involve young specialists in their organizations, and invest in their training and qualification. This ensures their social responsibility commitments towards society, on the one hand, and provides young employees with relevant skills on the other hand.

Even though SESA is implementing several mechanisms (e.g. unemployment benefits, professional orientation and counseling, training courses, etc.) the quality of those mechanisms is far from efficient. According to various sources, young people in Armenia mostly unaware of these support mechanisms and their labor rights in general.

The high rate of youth unemployment (39 percent as of 2010) is connected not only with the difficult socio-economic situation of the country, but also with the inconsistency between education system's products and the requirements of the labor market. Even after passing through all the required stages of the education, not too many young people are optimistic (especially outside of Yerevan) about getting employed in the profession they acquired at their educational institution. This indicates a missing link between state and non-state educational institutions (both universities and the VET system) and labor market.

As mentioned by numerous business representatives and development experts during the interviews, the existing gap between the labor market requirements and education provided by the VET system to youth remains one of the major impediments for addressing employment issue in the regions of Armenia. Even when the companies have vacancies for certain professions requiring entry to mid-level professional education, they struggle to find appropriate specialists amongst recent graduates.

This is despite the fact that both state and various international organizations/projects (e.g. UNDP, EU) implement VET system development policies and projects.

Therefore, more and more young people have started to take part in short training courses or other educational programmes implemented through non-formal education, which seem to some extent help young people develop some skills (like computer literacy, basics of business and financial planning, management etc.) they need to get a job and/or start a business.

According to various sources, 70-80 percent of events organized by state bodies, NGOs and international projects/organizations have been supplemental to formalized education.

The lack of sense of initiative as well as quite many obstacles connected with establishing own business (including taxation policies and corruption practices) result in few young people practicing entrepreneurship in Armenia. Despite of these facts, several private and incubator foundations (e.g. EIF), as well as well-established businesses, are developing different programmes to encourage young people to begin their own start-ups. Youth unemployment is one of the main reasons of emigration. Young people, especially the ones having a higher education and professional ambitions, choose to look for the continuation of their educational path (mostly post-higher education) and then career opportunities abroad (mainly in the EU and US), whereas young people with vocational or only secondary education (mainly rural youth) look for employment solutions mostly in Yerevan and/or Russia.

However, youth employment and creation of job opportunities for young people is one of the main priorities of the Government of RA and for some governmental and non-governmental institutions. A number of NGOs and businesses started to address this question by opening their own youth training centers.

Most rural people in Armenia still depend on agriculture for their livelihood and they will continue to do so in the absence of alternative sectors development (e.g. tourism, services, production etc.). Over past twenty years, the situation in Armenian agriculture did not change much: insufficient investment and deteriorating productive infrastructure resulted in widespread subsistence-level farming, low productivity, isolation of agriculture and the rural population from the rest of the economy. Although employment rates of the rural population, in some cases, are higher than urban ones, total income from agriculture

for most households is low, and underemployment determined by seasonality of agricultural activities is a serious problem. Survival strategies dominate rural economies. In the long run, an agricultural sector that is poor in investment and capital can hardly be sustainable and competitive, even in the internal market.

Quality youth employment in agriculture is only possible if young people can make a decent living by working on the land, be it as farm laborer, contributing family worker, or an independent farmer. In developed countries, to be self-employed is viewed quite positively as it is associated with independence ('to be your own boss'). In Armenia, being self-employed usually means being a small-scale farmer or earning a meager income in the informal non-farm economy. For rural youth, current low level of income is hardly an incentive to work on the land, but they have little choice because there are few alternatives outside agriculture. Therefore, focusing agricultural extension efforts and other support schemes on young people seems promising.

An increase in labor productivity in agriculture, and relevant labor shedding are prerequisites for transforming from subsistence farming to agricultural business. To maintain the high employment rates in villages, more nonagricultural jobs in rural settlements need to become available. This would lead to better integration of the rural population in the economic life of the country and to diversification of the sources of their income. Also, labor mobility of the rural population should increase.

In this regard, development of supporting and non-agricultural sectors such as tourism, and other agricultural and non-agricultural services) will absorb excess rural labor, particularly youth. Over the past several years, the Government of RA is developing various projects (e.g. Tatev Tourism Development Zone, Dilijan Financial

Center, Jermuk, Sevan etc.) aiming to decrease disparity in country regional development and stimulate non-agricultural sectors.

**BOX 1. Creation of a Free Economic Zone at Zvartnots International Airport**<sup>12</sup>

*The Government of Armenia, with the objective of sustainable economic development, introduction of new technologies into Armenia, proportional regional development and creation of new jobs, specifically emphasizes the policy of creating Free Economic Zones (FEZ). Along with the policy formulation, the Ministry of Economy carries out certain projects, among which is the programme of creating a Free Economic Zone at Zvartnots International Airport.*

*The project started in 2008; the FEZ aims at ensuring access to new and efficient markets, increase in export volumes, creation of new jobs, and attraction of foreign investments, introduction of new technologies, and worldwide recognition of Armenian brands and development of business culture.*

*According to the project, the FEZ will be granted tax and customs privileges. It is intended to use "one stop handling" principle for all procedures: registration of an organization, import-export, crediting, report submission, tax inspections.*

*The FEZ will have a logistics center that will provide sorting, packing, freezing and informational-consulting services, as well as will include a certification laboratory conforming to European standards and a network of collection points for agricultural products that will work with individual farmers by providing storage services. Regional collection points will be established around the country.*

*It is projected that the export volumes of agricultural goods will increase by 20 percent as a result of the project implementation which implies that the incomes of agricultural producers/farmers will increase, as well.*

*It is planned that the Law on Free Economic Zones will be soon adopted by the National Assembly. On the other hand, negotiations with the immediate organizer of the FEZ - Corporation America SA – will be completed and an agreement will be signed.*

<sup>12</sup> Source "Armenia Economic Report 2010", RA Ministry of Economy, 2011

*Under this project, negotiations continue with the Armenian Association of Producers of Jewelry and Diamond to establish diamond and jewelry exchange/auction in the premises of Zvartnots Airport.*

### **Tatev Revival Project<sup>13</sup>**

*In the tourism sector, the public policy of the Government is developed and implemented by the Ministry of Economy led by the goals stated in the Tourism Development concept: increase the share of tourism in the growth of national income, support proportional development of Armenian regions, increase of the welfare and poverty reduction.*

*The Ministry of Economy of Armenia, together with the National Competitiveness Foundation, initiated implementation of the Southern Axis project which intends to revive the Tatev Monastery and surrounding areas.*

*The historical and cultural monument of Tatev Monastery, with its past educational and religious traditions, being surrounded by beautiful nature and based on the authentic cultural values of Armenian villages, is a destination that promises touristic success.*

*Tatev Revival project consists of the following components: restoring the monastery, developing of new touristic products and tourism infrastructure, development of ecological tourism and culinary tourism in nearby villages, building a hotel and aerial tramway. One of the main objectives of the project is to revitalize the educational and religious traditions of the Monastery by creating necessary conditions for organization of seminars, trainings, conferences and scientific activities in Tatev and surroundings.*

*In October 2010, an aerial tramway was commissioned between Halidzor and Tatev villages, which is the longest reversible aerial tramway in the world (5.7 km). Due to the tramway, the monastery can be accessible also in winter months which will contribute to the economic development of the region and allow prolonging the tourism season in the country.*

- The lack of regularly updated economic strategy which would provide reliable data on the present and future labor market demands as well as efficient state policy and programmes for youth employment promotion and mechanisms for their implementation.
- The conditions for entrepreneurship and SMEs development do not motivate the growth of youth self-employment. Bureaucratic system, lack of financial resources and access to credits create obstacles for youth entrepreneurship development.
- Disproportionate development between cities and regions where the youth faces three most important problems: unemployment, lack of access to cultural and sport facilities, and access to good education.
- Mismatch between the VET system supplies and the labor market demands. Most of the employed youth have jobs that do not match their professional education.
- The social partnership institutes have just started its development and do not have sufficient influence on youth employment issues.
- Structural problems in agriculture: young people usually have no incentives to be employed in farming given the low productivity, low level of incomes compared to alternative non-agricultural occupation and lack of support for “start-up” farmers.

Some of those reasons are considered as bottlenecks for effective implementation of interventions designed to increase employment described in a chapter below.

However, the analysis of numerous documents, research papers, local expert opinions and employers' interviews indicate the following reasons for large number of unemployed youth:

In the meantime, in Armenia, there are examples of successful development projects and support schemes having their positive impact on a single community and/or region. The main issue remains consolidation of efforts, effective collaboration between numerous state and non-state stakeholders, and replication of successful models in addressing youth employment and self-employment/entrepreneurship development related problems within a comprehensive state strategy.

**BOX 2. Story of successful development project and support scheme**

*One of the numerous rural communities of Armenia is Qarahunj community (Syunik marz of RA) which is located 4 km away from Goris at 1,250m above the sea level. The community population accounts for 1,300 people – 320 households in total. The main areas of occupation for village dwellers is agriculture: livestock and land cultivation (mostly cereals and fodder crops) since the climatic conditions are not favorable for growing higher value agricultural products.*

*As the village mayor Mrs. Lusine Avetyan says: “Qarahunj village is no different from other mountainous rural communities of Armenia: with similar problems and efforts in addressing those. Underdeveloped agriculture and low yields, lack of employment opportunities and perspectives for youth, poor infrastructure etc. remain major problems the community faces every single day.*

*Our community had to recover after the collapse of the Soviet Union and destructive effects of the war in Nagorno-Karabakh. During that period a lot of people left the Community in search of jobs and better conditions. The migration level was quite high. Though, traditionally livestock was always the main*

*income source for our community, especially in Soviet times, this sector underwent significant drop in post-independence period. The number of households having even 1 cow was very low...”.*

*Since 2000 s, in cooperation with different international organizations/projects (e.g. SDC/SDA, World Vision, USAID etc.) the vilage authorities are trying to address these problems and prevent migration (especial youth) from villages.*





**The story of Artak Manucharyan is rather indicative in terms of development project efforts preventing youth migration from the village.**

Artak Manucharyan was born in Qarahunj community. Artak is 27 years old. He graduated the local secondary school. As opposed to his friends and relatives after serving in army Artak returned to the village and decided to run a farm. As per Artak young people mostly refuse farming because it's a heavy activity, to start up there is a need for some capital and does not seem to be that profitable. "My friends and some relatives prefer to look for a job outside of the village. After army many of my friends left for Russia or other countries for seasonal work. I don't have higher education, job opportunities are limited for me, that's why after serving in army I've decided to return to the village, to stay with my family and try farming raising the cattle" – says Artak. Artak lives with his parents, grandfather and brother, which is disabled.

Artak learnt about the SDC funded "Livestock Development Project" being implemented by Strategic Development Agency (SDA) from his neighbors. Within the project framework Artak received training and improved his ani-

mal husbandry skills, bought 1 cow and 2 heifers on credit. "I bought the cattle on my own, paid part of the debt selling the milk having no delays in payments" – proudly states Artak. With the Project support Artak has also participated in organized study tours visiting exemplary farms, where he learnt about new practices of cattle breeding, positive effects of AI, saw cattle born in the result of AI.

After the visits Artak has been actively implementing new practices in his farm. "I already have 2 calves born in the result of AI. The difference of traditional insemination and AI is indeed obvious. In case of AI both milk and meat productivities are higher. Part of the milk we get is being processed for our own consumption; the rest is being sold to "Elola" milk processing factory. I also solve the fodder issue on my own. During the pasturing season I'm sending the cattle to pastures, collecting graze for the rest of the year. I'm going to breed the bulls and sell the meat by the New Year and will buy cow again" – says Artak.

As Artak says livestock breeding is actually the main serious income source in his village, "of course it's not easy, but I like farming. If you do it seriously and well thought-out livestock can provide you with quite high incomes. To me, I'm sure it's better than to live far from family and to have a temporary job."



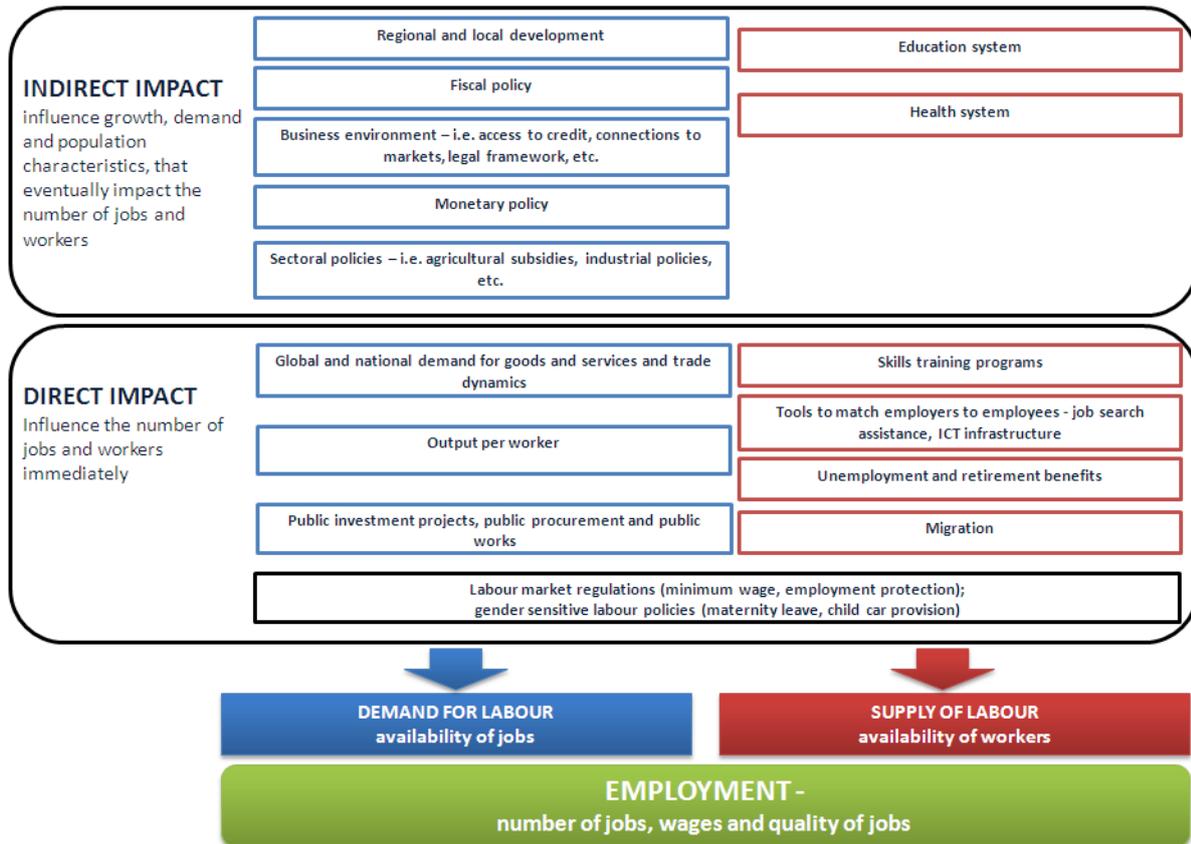
## **CHAPTER II – Strategic Interventions and Recent Reforms**

# 1. Labor policies and strategies

Various factors affect the level of employment in a country – directly or indirectly. In particular, public employment programmes directly contribute to the increase in employment level, while reforms in the

business climate and education system, as well as proportionate regional development, indirectly affect employment positively. Figure 8 depicts the above-mentioned impacts.

**Figure 8. Interventions affecting employment**



Based on our objectives and considerations, we want to focus on four main interventions: **employment policy, education, business and investment environment, and rural development/reduction of territorial discrepancies**, in part because of their potential impact on employment, and in part because of their priority in the Government policies.

## 2. Public Policy in Employment

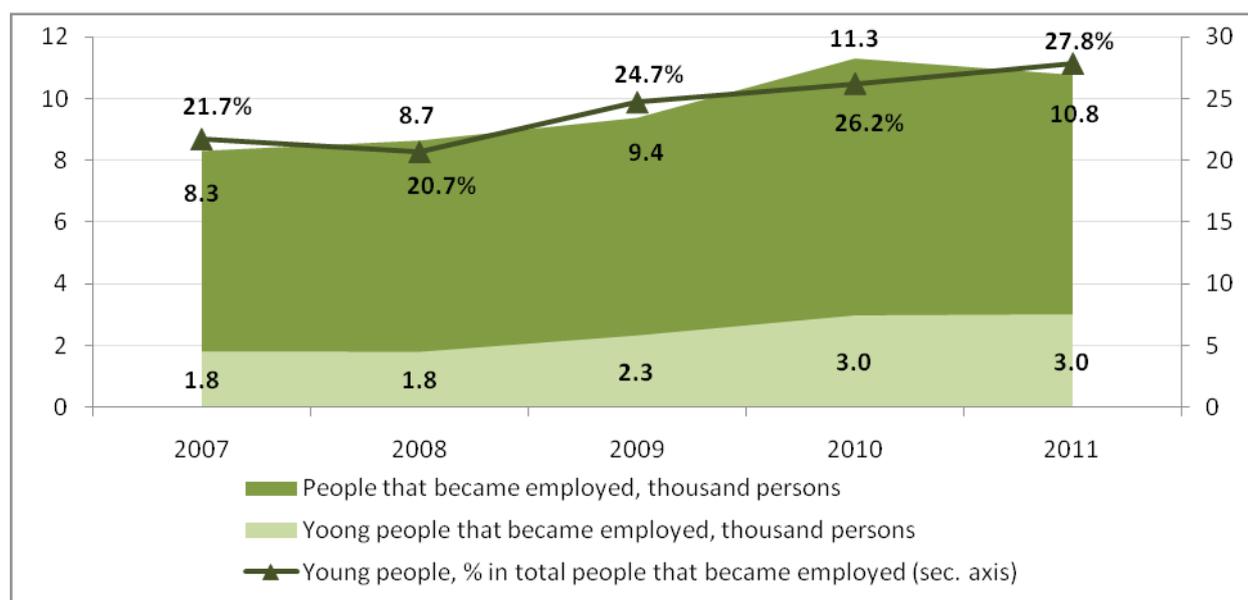
The following projects and programmes were implemented in employment regulation area in 2011.

**Table 5. Public programmes in employment regulation in 2011**

Programme	Number of beneficiaries	Youth
Partial compensation to employers for employing individuals that are non-competitive in the labor market	225	38
Financial support for the business registration	148	18
Professional trainings	1,804	1,095
Compensation of relocation expenses for those changing employment location	32	13
Organization of internships for those who have specialization but no working experience	227	227
Adaptation of working conditions for the disabled that are looking for jobs	11	2
Organization of paid public works	1,197	357
Organization of Job fairs	14,670	14,670

It is worth noting that 701 individuals were hired as a result of the professional training programme, 65 percent of them were young people. 314 trainees were young people from rural areas who owned land, however, were looking for a job. The objective of this programme of the Employment Services Agency was to promote involvement of youth in non-agricultural sectors (e.g. IT sector, commerce, etc.) by deliv-

**Figure 9. Numbers of those employed through public programmes and share of young people among them**



Source: Employment Services Agency

ering training on professions that are demanded in the labor market (programming specialist, engineers, system administrators, office assistants, commerce specialists, cook, designers, etc.).

Organization of internships for those unemployed that did not have any professional experience and employment record also aimed at promoting employment among the youth.

Overall, the number of people employed as a result of public employment programmes increases each year (including young people). Figure 9 represents the numbers of employed, including youth (as well as their share in total).

According to the State Employment Services Agency, in 2010, around 11,300 people were employed, of which 26.2 percent were young people. The share of young in total increased as a result of public employment programmes.

All ambitious projects, which are already undertaken by the Government, will generate employment in construction sector for the upcoming 5-7 years, namely: Construction of North–South Armenian Road Corridor (the project worth US\$ 962 million jointly funded by the Government, ADB and JICA);

Public employment programmes contribute to the increase in overall employment, however, a favorable business environment is also instrumental. Education programmes that train specialists to meet the requirements of employers also contribute to employment. Meanwhile, proportionate regional development within the country will create prerequisites that distribute investments and businesses more evenly, thus ensuring the creation of jobs in local communities (villages).

Recent developments of these three areas in Armenia are discussed .

### 3. Education Sector Reforms

From the perspective of youth employment promotion, higher (university) and secondary professional (technical) education is an important factor in the education system. The specialists, who will be later employed in various sectors of the economy, are prepared at this level. In many instances, youth unemployment is caused not only by insufficient labor demand and low salaries, but also by insufficient skills of young specialists and in compliance thereof with market demand. This is mostly a matter of inappropriate choice of specialization and inadequate training by professional education institutions. As mentioned earlier, the issue of professional orientation arises already in high school. Students need counseling as they select a profession that is compatible with their skills and capabilities and is demanded in the market.

Any country that aspires to develop as a knowledge-based economy cannot afford having an underdeveloped and inefficient education system. Bearing this in mind, the Government continuously implements various measures and programmes in order to improve the overall quality of the education system and support young professionals. Secondary education system is entirely financed by the Government. The Government also funds some of the students at universities, and provides opportunities to study abroad. Furthermore, the Government implements a variety of training programmes.

The Government implements a number of reforms in the professional education system.

Reforms in **Higher (Graduate) Education** are implementing in accordance with the principles of the Bologna process: the national framework of higher education qualification was approved; strategy of financing for universities was developed and approved; requirements and terms of certification of professional education

programmes were reviewed; the student mobility was addressed, credit system for research in post-graduate education was introduced.

As part of reforms in **Vocational or Tertiary Education**, 12 regional colleges were established in all *marzes* of Armenia and the capital; buildings of those colleges were renovated or refurbished, together with modernization. This initiative was implemented as a result of joining the Torino process of the European Education Foundation in 2010 and with the objective of reforming the vocational education in accordance with the requirements thereof. Moreover, for optimization purposes, 10 percent of vocational educational institutions were merged or restructured in 2011-2012.

**UNDP Vocational Education and Training System Project (UNDP-VET)**<sup>13</sup> launched in 2006 in Armenia. It aims at increasing working opportunities for youth via strengthening and enhancing the vocational education system in Armenia.

More than 26 VET institutions are included in the Project, assessed their needs and potential, upgraded technology, developed subject syllabi for all specialties, published new materials, curricula, textbooks and manuals, as well as trained instructors on the new curricula.

Labour market demand trends were taken into account while selecting the following 4 areas of focus included in the Project:

- ✓ Construction and Maintenance of Buildings,
- ✓ Craft/technical/vocations,
- ✓ Agricultural vocations and food processing,  
Tourism and services, including, business hospitality, trade, etc.

RA Government has provided young people with an opportunity to study abroad. Based on intergovernmental agreements signed in 2007-2011, 742 young people left for abroad to receive higher and post-graduate education. Besides, with creation of “Luys” foundation, 43 young people in 2009-2010, 68 young people in 2010-2011, and 143 in 2011-2012 were provided with support to study in the best 25 universities of the world.

#### **4. Improving the business and investment environment**

Improvements in the business environment and creation of a favorable investment climate have important roles in Armenia’s economic development and expansion. This has been noted a number of times by officials and stated in different strategic papers and policies.

Special emphasis on business climate improvement is made in the Sustainable Development Programme of the Government for 2008-2012. Furthermore, a concept paper was developed by the Ministry of Economy of Armenia in 2008 to transform Armenia into the best country in the region to do business in. The concept paper is titled Excellence Center in business and investment climate.

In recent years, the Government of Armenia implemented and continues to implement a number of measures to reform the business environment namely in tax and customs, business starting and registration areas, as well as in foreign trade and economic competition and urban development permits and inspections. As mentioned in the earlier, procedures necessary to start and liquidate a business were simplified.

<sup>13</sup> Please see <http://www.vet.am/en/index> webpage

The list of goods subject to certification was reduced, the frequency of tax payments was decreased, together with switching from monthly to quarterly for profit tax prepayments and minimum payments by resident entities. Furthermore, online tax reporting system was implemented, construction permit issuance procedures were simplified, list of documents and procedures required for exports of goods was significantly reduced, the number of goods subject to obligatory certification was reduced from 65 to 16, "one-stop-shop" principle was introduced for the Country of origin certification, as well as the frequency of inspection visits was reduced.

Activities and measures directed towards business environment improvement contribute to the establishment of a favorable investment climate which will, in its turn, promote creation of new companies and expansion of existing businesses, thus, resulting in the creation of new jobs. Especially in rural areas, mere simplification of business registration procedures is not sufficient for starting new businesses. It is necessary to ensure the inflow of investments and pursue policies that will provide for expansion of businesses throughout the country, not just in the capital city and other large cities.

In this context, an important role belongs to the "Small and Medium Entrepreneurship Development National Center" Fund (SME DNC) as the main state institution supporting small and medium entrepreneurship (SME) in the country. Having a well-developed network of regional branches and representative offices covering all *marzes* of Armenia, SME DNC offers a range of technical and financial support services, such as: provision of information and consulting on all the aspects of doing business in Armenia, development of human resources, sales and exports promotion, supporting start-ups and provision of Loan Guarantees, equity financing, seed capital, partial subsidizing of credit interest rates.

As of January 1, 2012, within the framework of SME State Support Programme 2011, 2,485 start-up and operating SMEs have received support from SME DNC, covering nearly 90 percent of *marzes* of RA.

However, while the lion's share of the assisted SMEs received technical assistance, very few received credit (less than 10 percent). Since all those financial tools are managed by commercial banks and/or credit organizations, with rather strict credit eligibility requirements (e.g. credit history, collateral, cash-flow etc.), the number of SMEs meeting the requisite criteria is really limited. In early 2000s, when micro-finance institutions were rapidly growing and expanding their operations, they were able to provide relatively more accessible financial services to small and micro-entrepreneurs, since mid 2000s all of them had to pass through Central Bank licensing and regulations. Nowadays, there is a little difference between commercial banks and credit organizations/micro-finance institutions offering financial services to SMEs. Some of them provide loans under discounted percent conditions (by 2-4 percent lower than the market rates), if financed by special lending programmes (e.g. World Bank, MCC/MCA etc.). However, the scope and outreach of those special programmes are usually limited and do not cover large number of SMEs.

In close cooperation with donors and international organizations, SME DNC is implementing SME support projects such as "Support to SME Development in Armenia" (jointly with UNDP) aiming to support the implementation of the SME State Support Programme and improve the knowledge and business skills of start-up SMEs and contribute to the increase of employment and business opportunities for the poor and socially disadvantaged at regional and local levels.

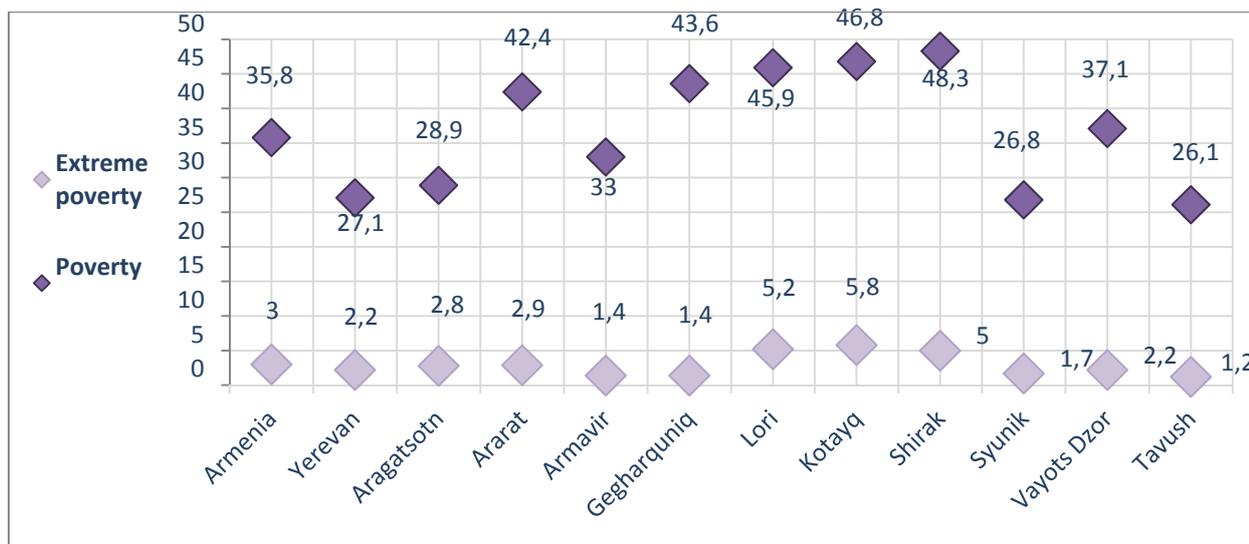
SME support also is focused on donor-funded projects, such as USAID Enterprise Develop-

ment and Market Competitiveness (EDMC) Programme<sup>14</sup>, which aims to increase the productivity and competitiveness of selected value chains of IT, Tourism, Pharmaceuticals and Agro-processing. Objectives of the Programme, amongst others, are enhancing workforce skills and entrepreneurial development (including “start-ups”

urban areas, as well as to other countries.

Disproportionate economic and social development is an acute problem in Armenia. In fact, the problem exists not only in urban-rural dimension, but also between Yerevan and *marzes*. Even poverty indices prove this: poverty in Yere-

**Figure 10. Extreme Poverty and Poverty Incidence in Yerevan and *marzes* in 2010, percent**



Source: “Armenia: Poverty and Social Snapshot”, NSS of RA, 2011

established by youth), and improving business environment in Armenia through variety of instruments, such as: research and analysis, technical and financial assistance, policy reforms etc.

EBRD established Business Advisory Services (BAS) and the Enterprise Growth Programme (EGP) aim to improve the competitiveness and level of sophistication of the MSME sector in Armenia by providing micro, small and medium-sized enterprises with assistance from experienced advisors (both: local and foreign).

## 5. Regional development policy

Disproportionate economic development in regions of Armenia negatively affects demographics and social and cultural life, largely contributing to the migration of youth from rural areas to

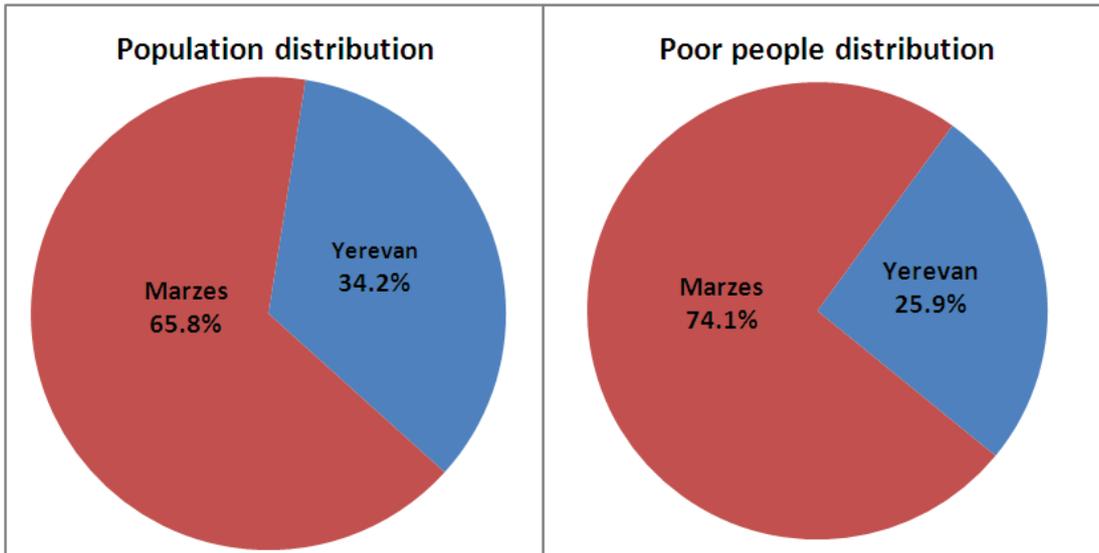
van significantly differs from its level in *marzes*.

Poverty incidence is relatively low in Aragatsotn and Armavir *marzes* which are not far from the capital and in many cases inhabitants of these *marzes* work in Yerevan. Poverty incidence is the lowest in Syunik *marz*: this can be explained by highly developed mining industry in Qajaran town where one of the largest industrial companies of Armenia – Zangezur Copper-Molybdenum Plant – operates. Poverty is the highest in Shirak *marz*.

For comparison purposes, it is worth mentioning that in 2010, the permanent population of Yerevan constituted 34.2 percent of total population of Armenia (See Figure 1 1); 26 percent of the poor lives in Yerevan. This also illustrates the disproportionate distribution of poverty across the country.

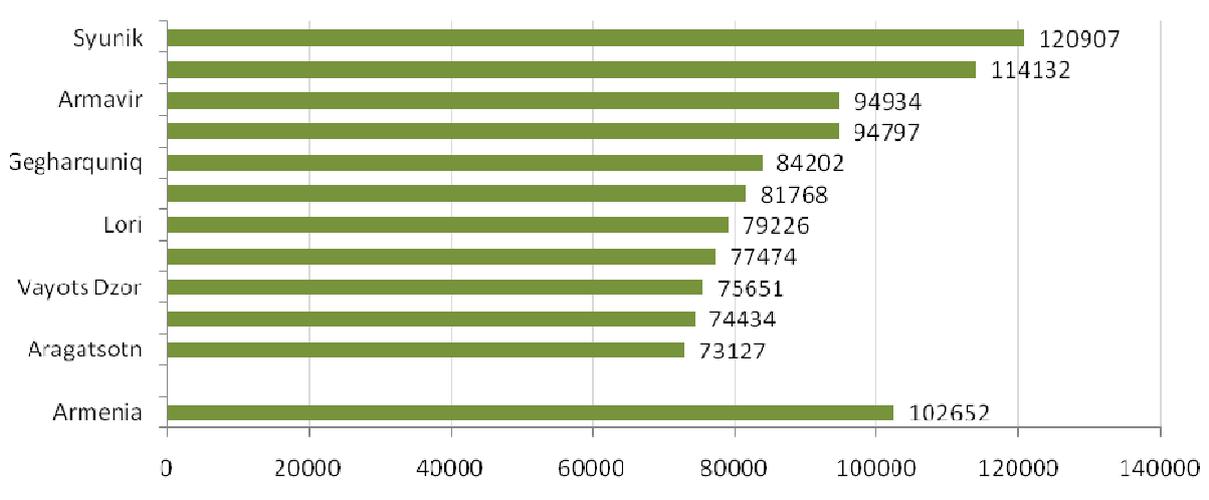
<sup>14</sup> Launched in the end of 2011

**Figure 11. Poverty in Incidence in Yerevan and marzes, 2010, percent**



Source: NSS of RA, Demographic Handbook of Armenia, 2011

**Figure 12. Average salaries in Yerevan and marzes in 2010, AMD**



Source: NSS of RA, Labor Market in the Republic of Armenia, 2006-2010

Statistics indicates that the employment rate in Yerevan is low in comparison with *marzes*. The fact is that, according to the NSS methodology, those involved in agricultural land cultivation (even if the crops are used exclusively for personal consumption, constituting the significant part of the household's consumption) are considered employed, thus increasing employment figures in *marzes*. In 2010, employment level in agriculture in Armenia was around 45.3 percent (both formal and informal).

At the same time, in 2010 the level of average salaries in Yerevan in comparison with marzes is above the national average with the exception of Syunik marz (See Figure 12).

In many *marzes*, especially in rural communities, infrastructure is under-developed or in disrepair, non-agricultural employment is low, no entertainment centers exist, and migration is high. Currently, almost all graduate and vocational educational institutions, as well as cultural and entertainment centers are concentrated in Yerevan. Indeed, 61 out of total 99 museums, 18 out of 28 theaters, and 17 out of 19 concert organizations are located in the capital.

Such discrepancies lead to youth migration from *marzes*, especially from rural areas, diminishing their potential to contribute to developing local communities due to their own entrepreneurship and certain government support, is decreasing.

During the years of the Soviet Union, the picture was different. Yerevan was not the only developed city in the republic. Leninakan (today's Gyumri) was an industrially and culturally developed town. In Kirovakan (today's Vanadzor), the chemical industry was developed, separate rural areas and districts were specialized in some branch of industry. After the Soviet collapse, during years of crisis, many large enterprises were closed, infrastructure was destroyed, and cultural centers stopped operating. This situation resulted in high rates of migration. Nowadays, RA Government makes investments for infrastructure renovation and mitigating territorial disparities.

In order to mitigate the consequences of such disparities, the Government of Armenia carried out a number of measures during the recent years.

As part of the **Infrastructure Rehabilitation** measures, irrigation and drinking water supply systems were renovated in a number of communities. Roads of strategic importance to regional development were built or reconstructed. Internet and telecommunications coverage expanded considerably. Furthermore, procedures were simplified for connecting to the electrical grid for residents and small and medium businesses, reducing the number of days and fees required.

As part of the **Earthquake Zone Reconstruction** in 2007-2011, the Government of Armenia provided apartments to 5332 families. The programme is intended to continue, providing another 1720 apartments in 2012, in order to fully solve the problem of families left without shelter as a result of the earthquake.

Starting in 2010, the Government also implements **"Affordable Apartments to Young Families"** programme which provides assistance to young families in need of housing improvement. Such families are eligible for mortgage loans at lower interest rates and down payment. Currently, the Government subsidizes 4 percentage points for mortgage loans in *marzes*, thus the effective interest rate is 6.57 percent. In addition, procedures for issuing construction permits were simplified. Such initiatives support young families and create incentives for them to stay in their communities.

Agricultural loans were provided at lower rates to relatively poor communities (assessed based on criteria set by the Government), together with privileges in receiving fertilizers and other incentives.

The Government implemented Cultural Programmes in *marzes*, specifically theater and concert shows, presentation of Armenian movies, performances in Yerevan of artistic groups from *marzes*, as well as "Library-on-Wheels" in remote communities and other activities.

In order to ensure harmonic development of communities, taking into account capabilities in collecting revenues, as well as the need for expenditures to carry out mandatory functions of communities, the Central Government provides financial donations to communities to reduce differences in community budget revenues. As mentioned earlier in this report, several rural development donor-funded projects operate in regions of RA contributing to elimination of existing disparity between Yerevan and *marzes*/regions.

## **Rural Assets Creation Programme (RACP)/ IFAD**

Over the last fourteen years, IFAD has invested in five projects/programmes in Armenia supporting the renovation of irrigation systems at the secondary and tertiary levels, the establishment and training of water users' associations, the provision of rural financial services, and the reconstruction of social infrastructure, inter-related package of rural business development training, and loans for investment and working capital for small and medium on and off-farm private enterprises, etc.

The objective of the RACP is to reduce rural poverty level in Armenia by increasing the net assets and income level of poor farmers through introduction of modern horticulture. The objectives are to be achieved by developing horticulture value chain, rural financing, and restoration of rural infrastructure.

The "Horticulture Value Chain Development" component aims to increase production volume and net income of small-scale producers through the implementation of a value chain programme for fruits and nuts. Under this programme, a newly-established "Fruit Armenia" company will enter into contract farming arrangements with small-scale producers and establish modern orchards on land held by such small-scale producers. Under the contract farming arrangement, for the 12 years subsequent to establishment of an orchard, Fruit Armenia will process and sell the yields and retain a certain percentage of the value of the products.

"The Fund for Rural Economic Development in Armenia" (FREDA) was established in 2009 in the framework of the "Rural Finance" Component of the "Farmer Market Access Programme in Armenia" (FMAP), which is a joint activity

between the Government of Armenia and the International Fund for Agricultural Development (IFAD) aiming to alleviate poverty through the economic development of rural areas in Armenia. The overall goal of the "Rural finance" programme is to foster development and sustainable economic growth of rural small-holder farmers and rural small and medium size enterprises by supporting the provision of financing to private small and medium rural businesses with strong linkages to poor rural producers.

FREDA is the first investment fund in Armenia with a rural focus. FREDA makes investments in rural SMEs with growth potential (and working with poor rural producers) by providing innovative financing instruments and capital and management assistance. This enables enterprises to improve their competitive position and contribute to the acceleration of rural development.

## **SDC funded projects**

The Swiss Agency for Development and Cooperation (SDC) assistance to Armenia is provided in the fields of Economic Development and Employment, Disaster Risk Reduction, and Recovery and Reconstruction.

"Economic Development and Employment" section of the SDC Strategy for South Caucasus 2008-2011, namely: farmers acquired knowledge/capacities to make informed and efficient use of resources and market channels; principles of disaster risk-reduction are applied at local level; interaction between target groups and local self-government is enhanced through institutional capacity-building and participatory decision-making. The project approach is the "making markets work for the poor" (M4P), which helps to build links between the farmers and other market players, so that both parties mutually benefit from such cooperation relationship.

Two major projects are in process in Syunik marz of RA.

- a. “Syunik Livestock Development Project” is implemented by “Strategic Development Agency” (SDA) NGO and aims strengthening of the livestock sector and the increase of income and job opportunities for farmers in 40 rural communities of Goris and Sisian. The project focuses on the dairy and meat value chains and aims specifically to increase farmers’ knowledge in farm management and breeding techniques, support farmers’ access to vital services such as agricultural inputs, artificial insemination, machinery services, financial services, and others, strengthen farmers’ access to sales markets, processors and traders.
- b. “Rural Development in the Region of Meghri” is implemented jointly by INTERCOOPERATION, (Swiss Foundation for Development and International Cooperation) and SHEN NGO. The project goal is an increased and sustainable income of small-scale horticulture producers (value chains of fig, persimmon and pomegranate) through higher profitability of production and enhanced access to markets. That is being achieved through capacity-building to the benefit of horticulture producers and other market players and in strengthening linkages among market players with a view to improve access to relevant services and market information.

### **Other projects**

World Vision, UMCOR<sup>15</sup>, CARD<sup>16</sup> and some other organizations are implementing various local rural development projects in different regions of Armenia in the areas of communities’ facilities rehabilitation, health (including HIV/AIDS) and children programmes, promotion of micro-enterprise development, agricultural extension and cooperatives establishment etc.

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<sup>15</sup> United Methodist Committee on Relief

<sup>16</sup> Center for Agribusiness and Rural Development Foundation – successor of former USSA MAP project

# Strategic Interventions

## 1. Key interventions and priority activities

For each of the four interventions, we considered a number of activities that would contribute to the MDG target achievement. Our analysis is based on existing strategic plans, such as 2012-2017 Government Programme, and informed by participatory consultations with key stakeholders, such as donors (UNDP, UNIDO), NGOs, experts. Many of the existing policies and endeavors have been described in the previous section, and the following have been identified through the review of existing programmes and projects, as well as the available data.

**Employment policy: Promote employment and job placement for youth** Increase effectiveness of employment related public services (employment, vocational orientation, preparation and training, consultancy), especially in rural and borderline areas

- ✓ Ensure gender equality, including equal status among men and women, and the right to receive equal pay for equal work.
- ✓ Organize training services for youth at *marzes* and community Youth Centers, involving employment service specialists, as well as representatives from higher educational system and business sector, in order to match vocational qualification of youth to the labor market demand.
- ✓ Introduce economic stimuli aimed at increasing employers' willingness to make an unbiased selection of employees regardless of gender and civil status.
- ✓ Introduce economic stimuli aimed at increasing employers' willingness to hire youth with qualifications matching labor market demand.

**Education: Provide youth with opportunities to receive qualitative education complying with their aspirations and capacities**

- ✓ Strengthen professional education to meet labour market requirements.
- ✓ Apply criteria to evaluate education quality of unemployed people.
- ✓ Develop a vocational orientation system, and Lifelong learning system relevant to the labor market requirements.
- ✓ Improve accessibility to professional education.
- ✓ Provide gifted students with opportunities to receive professional education in world recognized educational institutions.

**Business and investment environment: Create a favorable business and employment environment for young people in order to promote their business initiatives, and enhance non-agricultural employment in rural areas**

- ✓ Provide newly established and operational SME-s (including youth start-ups) with credit guarantees, marketing and training services.
- ✓ Organize events for youth in rural communities, aiming at providing skills and capacities to apply innovative ideas for increasing agricultural productivity.
- ✓ Support women entrepreneurship and promote credit programmes directed to economic initiatives of women, especially in rural communities.

- ✓ Contribute to formation of youth-led farms and agricultural processing micro-enterprises in strategically located areas (border close areas, etc.).
- ✓ Create a free economic zone at the premises of Zvartnots airport (aiming at increasing agricultural products export).

**Rural Development/Reduction of Territorial Discrepancies: Significantly decrease disproportional territorial development, and increase the income of rural populations**

- ✓ Improve quality and accessibility of local public services in *marzes*, including affordable financial services, regional markets and community infrastructure.
- ✓ Support sales of agricultural products including logistics, infrastructure and business services to ensure favorable conditions for free flow of agricultural products in producer-consumer chain.
- ✓ Contribute to the preparation of priority sectors development programmes and introduction of those programmes to domestic and foreign investors.
- ✓ Invest in development of regional/*marz* infrastructure (including cooperation with private sector) aiming at notably improving conditions necessary for establishment of businesses.
- ✓ In poor *marzes* and regions (in particular highland and border close regions), introduce financial support for business startups.
- ✓ Implement broad-scale infrastructure projects aimed at socio-economic development including North-South transport corridor, transforming Gyumri into techno-city, es-

tablising Tatev Tourism Center and developing Jermuk City as a tourism destination).

These activities were evaluated for their possible **impact** and **feasibility of implementation**. **The impact evaluation** analyzed an additional value from implementation of priority activities; the per unit benefit from a resource spent to implement the priority intervention; the length of time to achieve the impact; and spillover benefits for a target population including vulnerable and poorest groups. The feasibility evaluation considered stakeholder coordination and political will for implementation of solutions, including the Government and partners' ability to plan, implement, and monitor the proposed solutions; the availability of funds to cover the cost of solutions; and other additional factors such as potential risks that might impede the solution. Evaluations of the above activities were based on the available database, discussions at a UNIDO and UNDP workshop in Aghveran on April 12-13, with participation of different national stakeholders (representatives from CS and Government, as well as, experts on MAF from UNDP and UNIDO headquarters),<sup>17</sup> as well as additional bilateral discussions with authorities and experts.

The priority interventions selected for step 1 of the MAF analysis are presented in the table below.

The other interventions were not selected, either due to comparably lower impact on the MDG acceleration, or to their low feasibility in terms of required budget or capacity.

The next sections discuss the priority activities in more details

<sup>17</sup> During the workshop, the methodology and country experiences, as well the core results under MAF Step 1 (Chapters 1,2) were presented. Besides, the participants formed 4 working groups (*Employment policy, Education, Business and Investment Environment, and Agro Strategy and Reduction of Regional Disparities*), and as a result of a group work, disclosed interventions and bottlenecks impeding their successful implementation were prioritized, as well as, recommendations on possible solutions were made.

**Table 6. Priority activities for each intervention**

<b>Intervention 1. Employment policy: promote employment and job placement for youth</b>
Priority activity 1.1 Improve the effectiveness of public services (employment, vocational orientation, training and business consultancy) especially in rural and borderline areas
Priority activity 1.2 Organize and coordinate vocational orientation and training services for youth at <i>marz</i> and community youth centers, involving specialists from the employment services, representatives from the higher educational system and private sector
Priority activity 1.3 Introduce incentives to increase employers' willingness to hire youth with qualifications matching labor market demand
<b>Intervention 2. Education: provide youth with opportunities to receive quality education that comply with their aspirations and capacities</b>
Priority activity 2.1. Strengthen professional education to meet labour market requirements
Priority activity 2.2 Develop the vocational orientation system, and the lifelong learning system relevant to labor market demands
<b>Intervention 3. Business and investment environment: create a favorable business environment for young people in order to promote their entrepreneurship, and increase nonagricultural employment in rural areas</b>
Priority activity 3.1 Provide newly established and operational SMEs (including youth start-ups) with credit guarantees, marketing and training services
Priority activity 3.2 Promote financial and other services to support women entrepreneurs, especially in rural communities
<b>Intervention 4. Rural Development/Reduction of Territorial Discrepancies: significantly decrease dis-proportional territorial development, and increase the income of rural populations.</b>
Priority activity 4.1 Improve quality and accessibility of local public services in <i>marzes</i> , including affordable financial services, regional markets and community infrastructure

**Intervention 1. Employment policy: promote employment and job placement for youth**

Under the employment policy we discuss activities that have been directly contributing to employment creation (especially among youth).

**Priority activity 1.1: Increase the effectiveness of public services (employment, vocational orientation, preparation and training, consultancy) especially in rural and borderline areas**

**This activity aims to increase the effectiveness of public services (employment, vocational orientation, preparation and training, consultancy) especially in rural and borderline areas.** As it was presented in the previous chapter, the State Employment Services Agency organizes professional training for the unemployed, and internships for those who have specialization but no work experience. The Agency also provides partial compensation to employers for employing individuals who are non-competitive in the labor market, as well as other services. The State Employment Service Agency implements “Professional training courses” programme, taking into account discrepancy between demand and supply in labor market.

The aim of the professional training courses is to assist participants in finding a suitable job. The training focuses on acquiring new abilities and skills according to requirements of labor market, as well as to carry out an entrepreneurial activity. Youth Vocational Orientation Center, founded by the Ministry of Labor and Social Affairs provides vocational orientation services, such as vocational awareness raising, an individual evaluation to determine what vocation would be appropriate based on his/her skills and abilities, and business consultancy services that help support with the selection of a vocation, socialvocational adaptation, etc. An effective implementation of these programmes with a special emphasis on youth can lead to increased youth employment.

This activity can cover a significant proportion of MDG gap by 2015 (by 2015 at least 40 percent of the estimated number of youth in rural areas will have increased access to public services), and is mostly focused on youth. With proper implementation, its partial impact will be realized within 6 months (full impact is realised in a year). Funding for this activity is from the state budget, however, funding is limited.

**Priority activity 1.2: Organize vocational orientation, preparation and training services for youth at marz and community Youth Centres, involving employment service specialists, as well as representatives from higher educational system and business sector, in order to match vocational qualification of youth to the labor market demand**

The second priority activity implies **organizing training services for youth at marz and community youth centres, involving employment service specialists, as well as representatives from higher educational system and business sector, in order to match vocational qualification of youth to the labor market demand.** The importance of this activity is that it is implemented in communities and provides rural

area youth with an opportunity to be involved in training and vocational consultancy programmes. Additionally, involvement of educational system representatives and other experts ensure matching of the training with labour market demand.

It is expected that this activity will potentially close 30 percent of the MDG gap by 2015: young people will be trained and more qualified. Its partial impact can be realized in a year (full impact is realized in 2-3 years). Youth in urban and rural areas are direct beneficiaries. There may be some practical difficulties in integrating different parties (business, education system representatives) to implement the training in Youth Centres. If public-private partnership is undertaken, this issue may be solved. Besides, some issues related to weak capacities of youth centres along with active participation of youth are obvious. This should be supported by a conducive policy environment and technical and financial support. However, funding from the state budget and donor organizations is in place.

**Priority activity 1.3: Introduce incentives to increase employers' willingness to hire youth with qualifications matching labor market demand**

This activity considers **introduction of economic stimuli and other incentives to increase the employers' willingness to hire youth with qualifications matching labor market demand.** Vocations in highest demand are for construction and building maintenance, craft/technical/ vocations, agricultural vocations and food processing, and tourism and services, including, business hospitality, trade, etc. Young people could potentially be seen as a relatively risky group for employers, since they may not have a job experience, and thus they prefer to hire middle-aged experienced people even for entry level posts. That is why economic stimuli, such as tax breaks or other privileges, could motivate employers to hire youth.

The level of tax breaks and other incentives need to be considered carefully so they are significant enough for employers to favor hiring youth. Moreover, hiring young people and giving them an opportunity for on-the-job training can be a part of social responsibility strategy of firms, as well as an investment in young and diligent people.

According to experts' estimations, it is expected to cover a significant proportion of MDG gap by 2015 (by 2018 at least 50 percent of the estimated number of youth with appropriate skill sets in rural areas will be employed (about 110 thousand)). The impact is entirely directed to youth, with the majority directed to youth in rural areas. Some employers will express willingness to contribute to youth employment as a social responsibility, and thus the partial impact is realized in 6 months. The full impact is expected to be realized in 1-2 years. There are some concerns over planning and implementing the tools for creating motivation, as well as how to monitor the results, and whether there is sufficient funding from the State budget. While new financial sources are necessary, implementation of this activity is feasible until 2018.

### **Intervention 2. Provide youth with opportunities to receive quality education complying with their aspirations and capacities**

This section discusses priority activities aimed at improving the educational system, which can lead to increased youth employment. The Government has implemented a number of reforms in the professional education system during recent years. The two priority interventions would also contribute to increased effectiveness of the educational system so that it matches labour market conditions.

#### **Priority activity 2.1: Strengthen professional education to meet labour market requirements.**

This activity, **strengthening professional education to meet labour market requirements**, should include continuous training of instructors, revision of curricula based on labour market studies, and the development of a link between educational system and employers. Nowadays, this linkage is mainly ensured through internships.

It is worth mentioning that the RA Ministry of Education and Science periodically reviews a list of qualifications (especially those financed from the state budget), in order to assure compliance with the labor market demand. The Chamber of Commerce and Industry of the Republic of Armenia also contribute to the establishment of closer links between educational institutions and businesses. Strengthening of the vocational education system can have a significant impact on the reduction of the MDG gap by 2015 (vocational educational institutions' students will have trades in demand with relevant skills and knowledge (about 35 thousand people annually)), and the main impact is directed to rural youth. The full impact is expected in 2-3 years (by 2015).

#### **Priority activity 2.2: Develop the vocational orientation system, and the lifelong learning system relevant to the labor market requirements**

The other priority activity aimed at improving the educational system considers development of **vocational orientation system, and the lifelong learning system relevant to the labor market requirements**. Nowadays, vocational orientation services are provided to youth via different methods, such as visiting pupils in high schools or youth centres. However, many young people today still prefer to choose prestigious vocations, such as law, diplomats on international economic relations, medicine, etc.

government level, the involvement of schools and academic institutions will be necessary, and lessons learned from other countries would be applied. Besides, lifelong learning programmes for newly-hired employees promote continuous learning, ongoing training, social inclusion for them could also change the quality of work and working environment.

This priority has a significant impact on youth employment (covering all potential students and adults) though it requires at least 2-3 years to be implemented. Government willingness and funding are in place, which ensures this activity's feasibility and accessibility by 2018.

**Intervention 3. Business and investment environment: create a favorable business environment for young people in order to promote entrepreneurship, and increase non-agricultural employment in rural areas**

***Priority activity 3.1. Provide newly-established and operational SMEs (including youth start-ups) with credit guarantees, marketing and training services***

**Providing newly established and operational SMEs (including youth start-ups) with credit guarantees, marketing and training services** has been considered as a key priority in terms of stimulating the SME sector development and employment generation (targeting both employed and self-employed people). Though the Government of RA undertakes certain measures in this direction, mainly through SME assistance programmes implemented by SME DNC and supported also by donor community (e.g. UNDP, USAID etc.), nevertheless as discussed earlier in this report, the coverage (in terms of number of assisted SMEs and start-ups) of those SME assistance initiatives is rather limited, therefore further expansion and involvement of youth and

women led enterprises is of key importance.

***Priority activity 3.2. Support women entrepreneurship and promote credit programmes directed to economic initiatives of women, especially in rural communities***

**Supporting women entrepreneurship and promoting credit programmes directed to economic initiatives of women, especially in rural communities** is viewed as an effective instrument for entrepreneurship development and employment creation in rural areas, as is evident when considering the number of women involved in private business (nearly 50,000 enterprises owned by women and/or women headed), their entrepreneurial skills and the level of social responsibility.

Numerous research studies and assessments<sup>18</sup> show that women are often more responsible while setting up and running a business (usually a small/micro – one operated by family members), are less keen to make risky decisions, and are using the income generated more effectively for the whole family benefit.

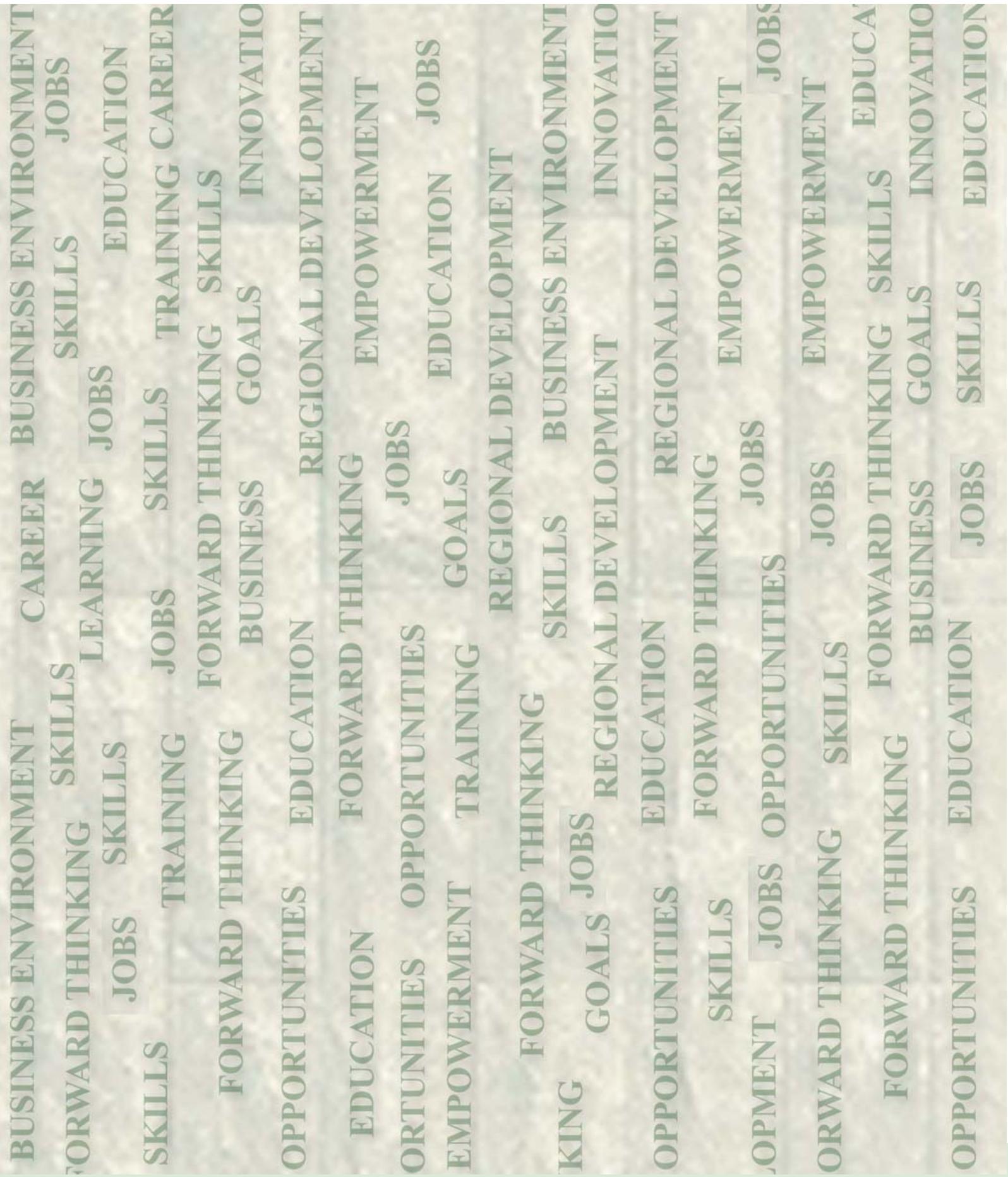
To date, female entrepreneurs have not been adequately targeted by the state SME assistance schemes (except for a few individual donor funded initiatives), which means there is a serious potential that is currently being under-utilized.

<sup>18</sup> Based on information received from different women business organizations such as: Women's Forum, Association of Young Women of Armenia, Women in Business: BAS/EBRD program etc. and researches conducted by different micro-finance service providers

**Intervention 4. Rural Development/  
Reduction of Territorial Discrepancies:  
significantly decrease significantly decrease  
dis-proportional territorial development, and  
increase the income of rural populations**

***Priority activity 4.1. Improve quality and  
accessibility of local public services in marzes,  
including affordable financial services,  
regional markets and community  
infrastructure***

**Improvement of quality and accessibility of  
local public services in *marzes*, including  
affordable financial services, regional markets  
and community infrastructure** is a complex  
issue, which has been in the center of the Gov-  
ernment's attention for quite some time. How-  
ever, various initiatives and programmes imple-  
mented to date in this area by the Government  
and international organizations/donors, such as  
WB, MCA/MCC, ADB, and others have been  
targeting either a limited geographical area and/  
or piloting different approaches in addressing  
similar issues such as access to finance, regional  
markets development etc. Based on these initia-  
tives, evidence has been generated on what has  
worked and what has not. However, there is a  
need for consolidating various experiences, and  
extracting "best practice" solutions to be further  
scaled up in addressing territorial disparities.



## CHAPTER III - Bottleneck Analysis

In this chapter, we discuss the bottlenecks that have impeded successful implementation of the above-mentioned priority activities. For each activity, bottlenecks are analyzed separately, and in the Section 5 they are evaluated based on their impact and availability of short-term solution.

### **Intervention 1. Employment policy: promote employment and job placement for youth**

Youth employment is of high importance and many programmes aiming at increasing youth employment are implemented annually by state and donor organizations. However, there are some bottlenecks impeding their successful implementation. Bottlenecks for each priority activity are analyzed below.

#### ***Priority activity 1.1: Increase effectiveness of public services (employment, vocational orientation, preparation and training, consultancy) especially in rural and borderline areas***

During discussions with experts and various stakeholders at the workshop in Aghveran, the following bottlenecks were identified:

- ✓ **Unregulated sector of private employment agencies, distrust of these agencies among youth:** There are many private employment agencies working in Armenia today. However, few people apply to them when seeking a job. Individuals express concern that these agencies collect fees but recommend jobs that are irrelevant to their skills and experience, or the agencies take the wage for the first month as an additional payment for their intermediation.

Due to this bottleneck, the private employment agencies have not been an effective link between unemployed people and employers. Overcoming this bottleneck would benefit unemployed people aged 16-24 (about 76.5 thousand persons).

However, this bottleneck was not selected as a priority bottleneck because its impact is not very significant: only a small fraction of unemployed people apply to these agencies, and it may take some time to change this situation. Besides, these are private organizations that function independently, so it may be hard to influence their working conditions through legislation.

- ✓ **Shortage of Government and Donor funding for the employment programmes:** due to shortage of funding there is only one youth centre established by the Government, and employment programmes are limited. Insufficient funding limits usage of already applied techniques, opening of new Employment Centres (especially close to borderline or far rural areas) and involving more unemployed people to increase impact of employment programmes. If this bottleneck is removed, young unemployed people in 16-24 age group (about 76.5 thousand persons) could benefit. Additionally, employers, and the Government will benefit indirectly.

This bottleneck was not selected as a priority either, since a notable increase in financing from the state budget in short-term is not likely, unless funding can be made available from donors and/or public and private foundations. However, involving donor organizations or other par-

ties will take time, and thus, the solution, in near future, is not feasible.

- ✓ **Low participation of youth (newly graduated) and employers (cooperation) in state employment programmes due to low trust of the Employment Centres' work and insufficient capacities of Centres' workers:** one of the reasons why many young people (mostly students) are not involved in employment programmes is the distrust towards many Employment Centres' work due to their workers' relevant skills and capacities, as well as their casual attitude to work. Many young people hesitate to get an unemployed or a job seeker status because of the stigma attached to this status, and thus, do not apply to the State Employment Centre. For the same reasons, employers don't apply to the Employment Centre in order to recruit potential new employees. If this bottleneck is removed, young unemployed people, as well as students who have willingness to work (about 30 percent of students), will benefit. Additionally, trust towards this government service will likely to improve.

It is worth mentioning, however, that removing of this bottleneck requires a series of complex steps. First, capacity building of Employment Centres' workers needs to be improved, especially in *marzes*. Second, involving the private sector, especially enterprises and organizations that can become potential employers for youth is important. In time, due to improvement in the quality of services provided, youth may start utilizing these services offered and trust may be eventually improved. Measures requiring a longer time frame and considerable commitment from the Government have not been included in the Action Plan,

which is focused on more feasible solutions.

**Lack of IT skills and access to online resources for job seekers:** many job seekers, especially youth, do not have appropriate IT skills to use online resources as an effective way of finding vacancies or to be registered for public employment programmes or trainings. More importantly, many young people in rural areas simply do not have access to internet. Thus, young people need basic skills to use internet.

However, the impact of this bottleneck is not very significant: not all information on job vacancies and job requirement is available online, not all young people have access to computers. Moreover, there are some issues related to increased access to internet: internet is provided by private organizations and increasing the coverage is possible if those organizations find it profitable. Thus, a short term solution of this bottleneck is not feasible, and it is not taken as a priority bottleneck.

- ✓ **Lack of information on state employment programmes, especially, on policies and programmes aimed at ensuring youth employment:** this problem results in low participation of young people. Making information about state employment programmes more available will increase participation of the unemployed. Young jobless people aged 16-24 will most likely benefit if this issue is solved. This bottleneck was prioritized because its impact on youth employment increase is substantial, and its solution is very likely in 1-2 years. The state employment programmes have been utilizing a variety of mass media channels,

both in print and online, which are becoming available and more accessible.

- ✓ **Lack of information for students and unemployed people on labour market demand:** many unemployed people cannot find a job due to insufficient information of existing vacancies. Providing unemployed people and job seekers with the necessary information will help people to assess available jobs and choose the one that matches best their skills and needs. Young unemployed people in 16-24 age group (76.5 thousand persons) as well as jobseekers in other age groups, will benefit from removal of this bottleneck. Employers will also benefit from increased awareness of potential employees of their (employers') requirements and number and nature of vacancies. Solution implies using all possible ways of informing people.

This bottleneck was identified as a priority one as its impact in terms of overcoming MDG target gap is strong. Besides, creating an integrated database of available jobs is very likely in 1-2 years.

**Priority activity 1.2: Organize vocational orientation, preparation and training services for youth at marz and community youth centres, involving employment service specialists, as well as representatives from higher educational system and business sector, in order to match vocational qualification of youth to the labor market demand**

For this activity the following bottlenecks were identified:

- ✓ **Lack of uniform standards for youth centres' activities and a weak cooperation among them:** this issue stems from the non-systemized work of these

centres, and a general lack of experience sharing culture. Establishing standards (in relevant sub-legislative acts) will help to monitor and evaluate the work of youth centres, and will help clarify their roles and responsibilities. Formalized or institutionalized cooperation among those centres will be useful as they can exchange ideas and best practices. Young unemployed people in *marzes* (about 44 thousand persons) will most likely benefit from removing this bottleneck.

This bottleneck was not identified as high priority because the Centers' activity depends much on territorial and even community specifics and needs, thus in some cases applying the same criteria will not be reasonable, and the solution of this bottleneck in the short- or mid-term is not deemed feasible.

- ✓ **Physical inaccessibility of youth centres for people in many communities, as well as technically underequipped centres and lack of trained human capital:** young people in *marzes* especially in rural areas do not have an opportunity to attend youth centres in other *marzes* as there is a small number of centres in Armenia (either founded by the government or donors). Thus, establishing new youth centres, especially in remote areas will enable more attendance and opportunities for youth in *marzes*. Young people will participate in training programmes and build some relevant skills. Besides, if these centers can be equipped with necessary hardware and software, internet and other necessary tools, they will be able to expand the scope of their support to youth. Unemployed youth in *marzes* (about 44 thousand persons) could benefit from such improvements. It is worth noting that the establishment of

new Youth Centers in *marzes* and providing them with all necessary equipment is realistic and has been planned by the government.

Though the solution of this bottleneck requires about 1-2 years to realize fully, and requires continuous funding commitments, and infrastructure in *marzes* should be developed as well, it is prioritized due to its strong impact on improving opportunities for youth employment.

- ✓ **Low awareness of the community and *marz* population, as well as businessmen and experts of the activities of existing youth centres:** lack of necessary information results in isolation of youth centres from employers and experts, and in low participation of youth. If the bottleneck is removed, about 44 thousand unemployed youth in *marzes* (as direct beneficiaries) will benefit. Improving society's awareness of youth centres' activities through a variety of outreach activities (via internet, TV, through Local self-governmental bodies) is quite feasible in the short-term.

The removal of this bottleneck should be accompanied with an improvement of the centres' work, including equipping the centres with modern technologies, improved client services, and regular funding from the Government. This is a complex process, but is rather feasible in the short-term, and thus received high priority.

**Priority activity 1.3: Introduce incentives to increase employers' willingness to hire youth with qualifications matching labor market demand**

The main bottleneck for successful implementa-

tion of this activity has been: **low motivation of employers to hire recent graduates or young people with no work experience (providing an opportunity for on-the-job-learning) or to organize internships and apprenticeship programmes.** As mentioned earlier, many employers prefer to hire experienced people instead of youth and, in cases where youth are hired, only a small percentage of employers regularly send their employees to participate to various trainings and discussions. If the Government were to provide some privileges or incentives, such as tax holidays, tax credits, tax rate reductions, and administrative benefits to employers, this bottleneck can be solved in only a matter of time. In addition, providing young graduates with jobs can become part of the social responsibility programmes showcased by employers. New graduates will benefit most (about 34 thousand persons annually).

The impact of this bottleneck is substantial and its solution is feasible; 1-2 years are needed. There are many ways to motivate employers to hire young graduates (or young smart people) and provide them with an opportunity to learn by working or at least have an internship).

**Intervention 2. Education: Provide youth with opportunities to receive quality education complying with their aspirations and capacities**

As described earlier in the situation analysis, the Government has implemented a number of reforms in the educational system. Donor organizations have also notably contributed to improving education outcomes. However, there are a number of bottlenecks in this sector, especially in regards to the employment of recent graduates. Bottlenecks are analyzed in the sub-sections below.

### **Priority activity 2.1: Strengthen professional education meeting labour market requirements**

The following bottlenecks that impede the implementation of this activity have been identified, based on data analysis and discussions with stakeholders:

- ✓ **Inadequate linkage between vocational education system and labour market (employers):** this issue results in mismatch between labour supply and demand. Employers representing food processing and beverage (beer and soft drinks) production; business hospitality (hotels); and machine building industry have expressed a willingness to cooperate with the educational sector, based on the results of the international Conference on Business and Education held in Yerevan in 2011. These industries want to hire the best graduate students without intermediaries, and establish internships for them.
- ✓ **Potential employers can participate in developing new curricula** for jobs most in demand, such as construction and maintenance of buildings, craft/technical/ vocations, agricultural vocations and food processing, tourism and services, including, business hospitality, trade, etc. Students in vocational education institutions (about 35 thousand persons annually) will benefit from this improvement.

Even though there may be some challenges to the feasibility, as employers usually announce vacancies on their websites or by other means rather than directly connecting with the educational institutions to hire graduates, the bottleneck is prioritized due to its high impact on graduates to find jobs in sectors where there is high demand.

- ✓ **Existing vocational curricula do not address vocations in demand in Armenia:** in many educational institutions, the curricula is comprised of subjects that are out-dated and should be excluded or modified (e.g. in some vocational schools, motor mechanics students learn to repair motors of cars produced in the former Soviet Union, however, nowadays those cars are replaced with cars of Chinese, Japan, German and other origin). Besides, there are vocations in demand, especially in the service industry (e.g. hospitality industry, IT professionals) which should be added to the list of vocations. Vocations in demand can be determined by an extensive labour market study conducted by private research organizations or Government agencies. Removing this bottleneck requires Government intermediation: all vocational institutions (public or private) should be coordinated, curricula and list of vocations should be reviewed and controlled, and experiences of foreign reputable institutions can be studied and adapted to Armenia. This is a rather feasible process in terms of planning and implementation.

Addressing this bottleneck may take longer than 2-3 years, as the practice has shown that changes in the education system will become evident only after several years.

- ✓ **Insufficient up to date professional literature in Armenian language:** due to lack of books and other materials in Armenian (e.g. professional literature for motor car mechanics, IT specialists), students have to study mainly in Russian or translate materials. This creates additional difficulties for both instructors and students. Students minimize the amount of academic literature they

read and sometimes base their learning mainly on lectures. If books and manuals are translated into Armenian from other languages, or are developed by Armenian experts, both students and instructors will benefit greatly.

However, the solution to this bottleneck is somehow unlikely in the short-term. It requires reviewing the existing curricula and determining the priority areas based on labour market demand, and deciding whether to create a literature database using various sources or direct translate from foreign sources. This also requires funding and involvement of qualified specialists, etc. Thus the bottleneck is not prioritized for the near term.

**Priority activity 2.2: Develop a vocational orientation and the lifelong learning system relevant to the labor market requirements**

- ✓ **Lack of public financing for education, especially for vocations that are highly in demand:** lack of financing limits opportunities to improve education quality, such as: equip educational institutions with modern techniques, supplement libraries with up-to-date literature, invite specialists from abroad or organize internships in universities abroad. Students of higher and vocational educational institutions (about 149 thousand persons annually) will benefit from full or partial removing of the bottleneck.

Though increased financing requires more resources either from the state budget, or from donor society via a project, which is not likely in short-term period, the impact of this bottleneck is strong (as lack of sufficient financial resources is one of the biggest obstacles in every sector).

Thus the bottleneck is not prioritized.

- ✓ **Weak understanding of different vocations by youth:** many young people, while choosing their future professions when applying to a higher or tertiary education institution, do not clearly understand in which sectors or organizations they can be likely employed after graduation. Graduate students can hardly find jobs relevant to their training and skills. Better understanding of vocations and future employment opportunities will help students to orient themselves better while choosing a profession and an educational institution. However, labour market demand is not the only determinant. Many people choose their profession based on their capacities and interests. Solving this bottleneck, the government can provide a notable support to secondary school graduating students.

However, this bottleneck is not prioritized, as there are many vocations that are “reputable” no matter whether they are in demand or not (economists, lawyers, linguists, etc.). Thus young people prefer them, even while realizing that they might have problems with finding decent jobs in the future.

**Intervention 3. Business and investment environment**

**Priority activity 3.1: Provide newly established and operational SMEs (including youth start-ups) with credit guarantees, marketing and training services**

The following bottlenecks were identified for this activity:

- ✓ **Entrepreneurs-beginners' concerns about the cumbersome tax system and an unfair competition:** this bottleneck has been expressed by various informants during this assessment, and also is acknowledged by the government. The overall improvement of business and investment environment in the country, and establishing equal opportunities for all entrepreneurs, remains a high priority. Though the Government has been implementing certain reforms and improvements in this sphere, invasive tax inspections and unfair competition related concerns (based on real life experience) remain a serious issue according to SME sector representatives.
- ✓ **Inadequate coordination of SME support programmes in Armenia:** was recognized as another bottleneck hindering the SME development in Armenia. Improved coordination between main actors such as state institutions (e.g. SME DNC, Armenian Development Agency, Chamber of Commerce etc.) and international organizations/donor funded projects will allow avoiding duplication of efforts, raise outreach of implemented programmes and improve cost-efficiency of limited funds available. For the moment, the number of SMEs that have received assistance from various SME support schemes does not exceed 4,000 (out of over 130,000 registered in the country). Therefore, the efficiency of using allocated funds becomes critical.
- ✓ **Underdeveloped infrastructure and obstacles to market entry:** Underdeveloped infrastructure remains one of the most serious bottlenecks hindering development of the business and investment environment in Armenia. This is especially true for remote regions and

rural areas of Armenia. Noticeable progress has been registered over past years through infrastructure renovation projects initiated by the Government of Armenia in cooperation with international organizations. Nevertheless, people living in remote mountainous regions suffer the most from lack of good roads (to access markets), water, gas etc. to establish/develop local businesses and attract investments from Yerevan and/or abroad.

- ✓ **Low awareness of SME support programmes in Armenia:** Low awareness of SME support programmes in Armenia is recognized as one of the obstacles for many SMEs in rural areas. As is seen from the statistics of SME DNC, and surveys and assessments through other support programmes, the number of SMEs receiving assistance from the SME support schemes does not exceed 4,000 (or just 3 percent of all registered SMEs in the country). Raising awareness amongst start-ups and existing SMEs in rural areas regarding available business counseling and support services will allow to reach out to a larger number of beneficiaries, including young people who will launch their own enterprises, as well as existing SMEs who will hopefully grow to create more jobs for youth.

**Priority activity 3.2: Support women entrepreneurship and promote credit programmes directed to economic initiatives of women, especially in rural communities**

The following bottlenecks were identified forth is activity:

- ✓ **Low affordability of loans, and limited financial and business services for rural women and youth for rural women and youth:** Affordable loans for rural women and youth en-

trepreneurs will have direct contribution in achieving the MDG target since there are numerous women entrepreneurs that are supported by NGOs, unions, networks and various SME support schemes/programmes and banks. As described in the interventions chapter, currently less than ten percent of SMEs receive financial assistance in the form of loans with subsidized interest rates. Affordable financial services can be made available through a variety of sources (such as the WB and others). However, special regulations need to be introduced through the Central Bank to bypass strict existing guidelines. Once affordable loans can be made available, they can be relatively quickly allocated through existing channels, and can have an immediate economic effect, particularly in rural areas.

**Insufficient promotion of female entrepreneurs' success stories and no platform for exchanging experience and business counseling:** Lack of confidence and low awareness of successful female entrepreneurs in Armenia can be addressed through promoting networks and “best practices” of women entrepreneurs who have succeeded in business and are willing to share their experience and advise others. Sharing “best practices,” together with mentoring through networks and associations, is recognized as an effective tool in promoting ideas and concepts worldwide and can be used in the Armenian context as well. Raising awareness amongst rural women and youth on successful female entrepreneurs' together with available support services will help unemployed women and young people launch their own enterprises and/or improve their existing ones.

#### **Intervention 4. Rural Development/ Reduction of Territorial Discrepancies**

***Priority activity 4.1: Improve quality and accessibility of local public services in marzes, including affordable financial services, regional markets and community infrastructure***

The following bottlenecks were identified for this activity:

- ✓ **Discrepancy between rural community budgets and the actual needs, including ineffective use of community resources:** Discrepancy between the needs of rural communities and their existing budget resources (including both local and centrally allocated revenues) remains one of the most serious bottlenecks hindering rural development in the country. This is especially true for remote regions and rural areas of Armenia with limited agricultural resources and low level of business/ entrepreneurial activities. Though the Government of RA has recognized this as a priority problem, the limited state budget resources and weak capacity of local self-government bodies significantly slow down reforms in this area.
- ✓ **Limited affordable and accessible financial services (including credit, insurance etc.) in the regions, especially for agricultural farming activities:** Affordable loans for agricultural activities can have a direct contribution to achieving the MDG target for decent employment. Lack of affordable/accessible financial services is one of the major factors preventing the agricultural development and on-farm employment. Once these services are available, they can be relatively quickly allocated and have an immediate economic effect in rural areas/ regions of RA.
- ✓ **Lack of access to agricultural markets, extension services, quality inputs & services to stimulate agricultural production & farm employment:** Alongside with affordable financial services, access to agricultural markets, exten-

sion services, quality inputs and services is crucial for agricultural production and farm employment. While financial services require significant financial resources from the State budget, therefore should be implemented in a targeted manner covering specific group (e.g. women, youth in rural area) creating a favorable environment for markets development is of more regulatory and facilitating nature. There are numerous market players, donor-funded projects and organizations working in this field and there are some good pilots that have been implemented in particular regions/*marzes* (see the Situation Analysis chapter for details). If supported by the Government (e.g. organizational support, replication of “good models” etc.) and facilitated by regional/*marz* authorities the replication of these projects/initiatives can have a noticeable impact in the foreseeable future.

## Section 5. Bottleneck prioritization

Based on bottlenecks analyses and evaluation, the followings were selected as priority bottlenecks:

Intervention	Priority activities	Priority bottlenecks
<b>1. Employment policy: promote employment and job placement for youth</b>	<b>Activity 1.1</b> "Improve the effectiveness of public services (employment, vocational orientation, training and business consultancy), especially in rural and borderline areas	Lack of information on state employment programmes, especially, on policies and programmes aimed at ensuring youth employment Lack of information for students and unemployed people on labour market demand
	<b>Activity 1.2.</b> Organize and coordinate vocational orientation and training services for youth at <i>marz</i> and community youth centers, involving specialists from the employment services, representatives from higher educational system and the private sector	Physical inaccessibility of youth centers for people in many communities, as well as technically underequipped centers and lack of trained human capital
	<b>Activity 1.3.</b> Introduce incentives to increase employers' willingness to hire youth with qualifications matching labor market demand	Low awareness of the community and <i>marz</i> population, as well as businessmen and experts of the activity of existing youth centers Low motivation of employers to hire recent graduates or young people with no work experience (provide an opportunity for on-the-job-learning), or to organize internships and apprenticeship programmes
<b>2. Education:</b> provide youth with opportunities to receive quality education that comply with their aspirations and capacities	<b>Activity 2.1.</b> Strengthen professional education meeting labour market requirements	Inadequate linkage between vocational education system and labour market (employers with job placements in agro-processing, small manufacturing sectors and service industry)
	<b>Activity 2.2.</b> Develop a vocational orientation and a lifelong learning system relevant to the labor market requirements	Existing vocational curricula do not address vocations in demand in Armenia (IT specialists, motor car mechanics, tourism sector specialists, trade, etc) Lack of public financing of education, especially on vocations that are highly in demand in Armenia and regionally (construction engineers, agricultural and food processing specialists, tourism and business hospitality specialists, etc )
<b>3. Business and investment environment:</b> create a favorable business environment for young people in order to promote their entrepreneurship, and increase non-agricultural employment in rural areas	<b>Priority activity 3.1.</b> Providing newly established and operational SME-s (including youth start-ups) with credit guarantees, marketing and training services	Inadequate coordination of SME support programmes in Armenia
	<b>Priority activity 3.2.</b> Support women entrepreneurship and promote credit programmes directed to economic initiatives of women, especially in rural communities	Low awareness of SME support programmes in Armenia Low affordability of loans, and limited financial and business services for rural women and youth Insufficient promotion of female entrepreneurs' success stories; no platform for exchanging experience and business counseling
<b>4. Rural Development/Reduction of Territorial Discrepancies:</b> significantly decrease disproportional territorial development, and increase the income of rural populations	<b>Priority activity 4.1.</b> Improve the quality and accessibility of local public services in <i>marzes</i> , including affordable financial services, regional markets and community infrastructure	Lack of access to agricultural markets, extension services, quality inputs and services to stimulate agricultural production & farm employment





**CHAPTER IV – Accelerating MDG  
Progress: Identifying Solutions**

In order to accelerate the progress towards the MDG target on youth employment, the bottlenecks discussed above should be solved within a short-term period. For each priority bottleneck, one or more solutions have been introduced. These solutions are mainly feasible in the short-term or mid-term period (requiring 1 to 3 years, the latest by 2018).

It should be noted that all bottlenecks and solutions identified during this assessment were important (e.g. in terms of geographical coverage, number of people etc.). Nevertheless, prioritization embedded in the MAF methodology was used to evaluate their impact (including cross-cutting impact), and feasibility. Some of the bottlenecks with a potential for high impact were left out considering the current absence of realistic solutions in the short-term. Consequently, only bottlenecks with high priority ranking were picked up and proposed for the next step, solutions identification.

### **Intervention 1: Employment policy: promote employment and job placement for youth**

***Priority bottleneck: Lack of information on state employment programmes, especially on policies and programmes aimed at ensuring youth employment***

To solve this bottleneck, we suggest to **implement a set of advocacy and awareness raising activities on public employment programmes, including the following: provide the public with information on ongoing programmes on a regular basis via mass-media; develop a TV programme devoted to youth employment issues; organize periodic meetings with youth in rural areas.** The solution proposed is rather comprehensive and feasible in the short-term, requiring only moderate funding. Informative TV and radio programmes, organizing regular and interactive discussions

with potential employers in youth centers or *marze* employment centers are expected to raise the involvement of youth in the employment programmes. This solution can improve the participation of young unemployed people (about 76,500) in public employment services and may contribute to the increase of employment among youth. This measure can indirectly contribute to poverty reduction, and gender equality in terms of increased female employment. About 1-1.5 years are needed to fully implement the solutions, also notable technical difficulties can be foreseen: TV and radio programmes can be designed and implemented by professional agencies that can cooperate with the State Employment Services Agency. Besides, funding from the state budget and donors is likely, but the exact sources should be determined.

***Priority bottleneck: Lack of information for students and unemployed people on labour market demand***

In order for the students and unemployed people to become properly informed of existing opportunities, we suggest **creating an integrated database on the labour market by the State Employment Services Agency, including the collecting information on vacancies from employers in various sectors, and periodically analyzing and disseminating the job trends and other data to the wider public.** In this regard, in order to organize data collection effectively, the State Employment Services Agency should collaborate with employers (businesses, NGOs, public sector), the Chamber of Commerce and Industry of Armenia and other organizations. This activity will enable the coverage of a big proportion of people lacking information. The full impact will most likely be realized within one-two years. It is worth mentioning that the State Employment Services Agency is able to maintain the database, ensuring the regular updates and accessibility online.

The impact of this measure is long-term, and likely to benefit those with access to media and information outlets. However, there are some technical concerns about creating and maintaining the complex database. But, the database creation and periodic update, as well as its availability online, do not require much funding, and its financing from the state budget is likely, as well as garnering support from employers and other stakeholders.

***Priority bottleneck: Physical inaccessibility of youth centres for people in many communities, as well as technically underequipped centres***

A) In order to solve this problem, new, well-equipped **youth centres in different marzes adjunct to the State Employment Services or as separate divisions should be established. These centers should have access to internet, and have their own websites (or separate pages at the State Agency's website) so that youth are able to register online.** Even though it is relatively easy to create such centers in each *marz*, it may be more costly to open and maintain them in remote and borderline rural areas. Creation of online information sources will enable many young people to register for employment programmes and trainings; however, internet is not always available in rural areas. Thus, the impact of this measure is likely to be higher if infrastructure reforms take place (ICT, transport, etc.). Currently, there is Youth Career Centre of the RA Ministry of Labor and Social Affairs and a number of youth centres founded by donors (Oxfam, USAID, UN). Even though this measure can be fully implemented within two years, it is very important to maintain the political will, so that such centers are established and well maintained in all *marzes*. Funding from the state budget to this activity has been already secured.

B) Another solution to the existing bottleneck is proposed: **implement capacity building measures for the employees of youth centres.** The training programmes should focus on improving the employees' computer and business counseling skills, and providing centres with modern equipment (computers and other office technology). In the future, the trained personnel of youth centers can organize trainings on computer skills for local youth. This solution can help address the existing problem, and young people in *marzes* are most likely to benefit if existing and newly established youth centers are properly equipped and workers are skilled (76.5 thousand young unemployed people are direct beneficiaries). However, at least two years are necessary to equip centers with relevant techniques and to train employees. The political will and funding is likely from the state budget. However there are some technical difficulties with connectivity and ICT in general, but these can be solved with time.

***Priority bottleneck: low awareness of the community and marz population, as well as businessmen and experts of the activities of existing youth centres***

In order to raise awareness of stakeholders, we suggest **disseminating the centres' activities via mass media, organization of meetings with local and expatriate businessmen, sponsors and experts.** This will help youth become more aware of youth centres, help establish networks amongst themselves, in addition to connecting with key partners and sponsors. As divisions or adjunct bodies of the State Employment Services Agency, youth centres could serve as a strong link between young unemployed and employers. For complete implementation, at least one year is needed. Though there are some concerns over the willingness of businesses to cooperate with the State Employment Services Agency, this can be resolved.

It is worth mentioning that no complicated techniques are required, thus no concerns about capacity exist, and the funding from the state budget and donors is likely. Apart from the State Employment Services agency, other parties (employers and experts) are involved in this measure, thus some concerns about their willingness to cooperate exist. However, if real benefits are realized or Government takes relevant steps to motivate them, the issue can be solved in the medium-term.

***Priority bottleneck: Low motivation of employers to involve recent graduates or young people with no work experience (giving an opportunity for on-the job-learning and training)***

One of the causes of youth unemployment is the difficulty with job placements for recent graduates, as major corporations and the public sector do not have a systematic approach of hiring youth for entry level positions. We suggest **defining tax privileges and other incentives for employers who involve young specialists without work experience, especially in rural and borderline areas.** Young unemployed people (about 76.5 thousands) as well as students will benefit much if employers are motivated to hire them. Tax breaks can be a sound motivation for employers. For example, in 2009-2011, tax breaks were given to small and medium businesses in order to foster hiring. However, the impact can be realized in one-two years: wide discussions, public hearings are necessary, and changes in the legislation are expected. There are other concerns as well. When young employees are professional and skilled, with education received abroad (even if they don't have relevant experience), unequal conditions and benefits may be created by various employers. Besides, this can create disadvantages for middle-aged or older unemployed people. Moreover, as this measure implies changes in the state budget revenues and legislation, political commitment has

not yet been finalized and funding sources are uncertain. Thus, though this solution seems to have a strong impact, it is not feasible in the short-term period.

**Intervention 2: Education-provide youth with opportunities to receive quality education that comply with their aspirations and capacities**

***Priority bottleneck: Inadequate linkage between the vocational education system and labour market (employers)***

A contributing factor to youth unemployment is low cooperation between the vocational education system and potential employers. In order to solve this problem we suggest **strengthening the link between youth centres and educational institutions (schools, vocational education institutions, higher education institutions),** and strengthening their role as an intermediary between the labour market and educational institutions. Youth centres, as divisions of employment centers (or adjunct bodies,) can serve as a strong link between graduate students of tertiary educational institutions and schools, and employers. This solution requires about two years to be fully implemented. It is worth noting that the political will is in place: two key governmental bodies (the State Employment Services Agency (separate division of the RA Ministry of Labor and Social Issues) and the RA Ministry of Education and Science expressed strong interest in cooperating. Besides, a tripartite collaboration between educational institutions, youth centers and employers is possible without technical complications, and funding from the state budget is likely.

***Priority bottleneck: Existing vocational curricula do not address vocations in demand in Armenia***

This problem weakens the linkage between education and labour market, but yet is crucial for improving labour supply in the short- and long-terms. The following two solutions are suggested here.

A) First, the **vocational educational programmes for the export-oriented sectors need to be prioritized, and the curricula development should involve employers (in sectors most in demand)**. New curricula development should include subjects that provide students with skills most required by employers; for example, computer and IT skills, marketing and public relations skills, foreign languages, maintenance of machinery (including cars, office equipment, etc). The benefit is mutual: new students can benefit as their skills will match the existing labour market demand, and employers will have an opportunity to hire young specialists matching their requirements. About two years will be needed for the full impact to be realized. While there are some concerns about employers' willingness to cooperate, this issue can be solved with time if State Employment Services Agency, the Chamber of Commerce and Industry and other bodies negotiate with employers. Cases of successful cooperation between educational institutions and employers/corporations can be widely disseminated. There are no concerns about the technical capacity of collaborating parties, and the funding from the state budget is likely. This makes this suggested solution both feasible in the near term, and yielding high impact for youth employment.

B) Along with involving employers, **instructors teaching vocational subjects should be trained to prepare specialists for sectors prioritized by the export-oriented industrial policy.**

As an example, it worth providing the follow-

ing vocational subjects in specific sectors, which are:

1. IT and printing-publishing specialists (publishing houses and IT/communications industry);
2. Technology of cheese and milk production and nut/fruit processing (food processing industry);
3. Operation of heavy machinery, construction and road building (construction sector);
4. Rolling stock and railway infrastructure technicians (railway)

This measure will have a strong impact especially if the curricula are reviewed and new subjects are included that address the present needs of these industries that are most likely to drive job creation. Both students and employers stand to benefit directly, as skilled instructors will prepare good specialists. Specialists from abroad can be invited to hold training sessions on subjects that are new for Armenia. All these activities require about 2-3 years. However, there are minor concerns about the readiness of educational institutions to actively participate in these training programmes, as well as an effective organization of training. This issue can be easily solved with proper coordination. This solution requires a public-private-partnership (PPP), and funding and strong support from the private sector is necessary.

***Priority bottleneck: Lack of public financing of education, especially for vocations that are highly in demand***

Lack of financing is a rather serious problem in almost all sectors. Education is not the exclusion. Thus, our recommendations comprise both increased funding and effective usage of existing funds.

A) In order to increase the efficiency of financial resources spent on education we suggest to **develop a system that defines a number of students to be financed by the Government (through a state order) in higher education and vocational education institutions based on the analysis of the existing and projected labour market demand.** This measure will help to partially solve the problem of insufficient financing as the state financing will be based on labour market demand and thus more efficient. Full impact can be expected in 2-3 years. However, there may be cases when, based on the labor market study, financing of particular vocations (which are not in demand) from the state budget is decreased and transferred to other vocations. This can result in some discontent among students and educational institutions. In addition, there are some concerns about the political will to change the mechanisms of defining the eligibility for the Government financing schemes. On the other hand, the state Employment Agency and local research organizations have relevant capacities to carry out labour market demand analysis and develop mechanisms to define the number of students whose education will be financed by the Government. Funding from the state budget is likely. Thus, the activity is feasible in the mid-term period (up to 2018).

B) Another possible solution to this bottleneck is the **development of mechanisms for Public-private partnership (PPP) of vocational educational institutions and employers (for particular vocations, employers may have their investment).** In case of PPP private sector financing will cover part of financing in specific educational institutions, and later hire their graduate students or organize internships for them. Here again about two years are needed. Even though this arrangement cannot fully resolve potential concerns regarding decent work placements for new graduates, the PPP can provide some guarantees for entry level job security. It is worth mentioning that the political will to co-

operate with private sector is in place, and the process will be coordinated by the appropriate government agencies. Besides, there are no concerns about capacities (Government or research institutions) to develop effective partnership mechanisms, and funding from the State budget is likely. Thus, this solution is rather feasible.

**Intervention 3. Business and investment environment: create a favorable business environment for young people in order to promote their entrepreneurship, and increase non-agricultural employment in rural areas**

***Priority bottleneck: Inadequate coordination of SME support programmes in Armenia***

Removal of this bottleneck is related to ***improving efficiency of delivery of SME support services through better coordination between relevant state institutions and donor funded projects*** and as a result improved efficiency in the use of limited funds allocated by the state and international organizations/donors.

For instance, besides the SME DNC, which is funded from the state budget and supported by UNDP, there are other donor funded projects (e.g. USAID, IFAD, etc.) working in this area. The lack of coordination and cooperation between various projects can be observed while traveling to regions and speaking with sector representatives. Regular meetings between the state and donor funded projects, exchange of information on implemented programmes and future plans can help improve the efficiency of SME support services and potentially expand the geographical coverage to assist a larger number of SMEs.

The solution does not require significant expenditures, but needs a workable mechanism for effective coordination, and political will to implement those activities that will most likely benefit SMEs and young entrepreneurs in the country.

**Priority bottleneck: Low awareness of SME support programmes in Armenia**

Lack of awareness of SME support programmes partially explains the relatively modest figures of assisted SMEs (with only 10 percent receiving financial and business support assistance). Together with improved coordination between responsible agencies, **scaling up of business development services, including sharing of success stories of enterprises in rural communities** can help remove this bottleneck. It is also relatively feasible to implement in the next couple years. This solution does not require significant additional expenditures but more efficient use of SME DNC of Armenia, a nationwide network that has extensive field presence, and has the ability to attract more SMEs and young entrepreneurs from their regions.

**Priority bottleneck: Low affordability of loans for rural women and youth**

Removal of this bottleneck requires the **creation of new affordable loans for new entrepreneurs, especially for young people**, through targeted interventions by the Government in the country's financial sector (e.g. review of existing subsidies on loans and interest rates, special lending criteria for the poor and vulnerable groups with no collaterals, etc.). The targeted interventions should provide appropriate incentives to existing commercial banks and credit institutions to enable them to provide affordable loans to women and youth who are involved and/or want to get involved in entrepreneurial activities in rural areas. The solution requires not only legislative and regulatory review by the Central Bank, but also needs funding from the state to cover the difference between existing commercial interest rates on credits and other social support measures such as the Affordable Housing Programme for Youth. Once such funds are allocated, and new regulations are set in place, the solution can bring measurable impact on youth employment.

**Priority bottleneck: Insufficient promotion of female entrepreneurs' success stories and no platform for exchanging experience and business counseling.**

**Creation of a network of experience exchange, business counseling and dissemination of best practices by businesswomen** is viewed as an effective tool to encourage and stimulate unemployed women and youth in rural areas to develop their own business ideas and start an entrepreneurial activity. Together with available SME support services and affordable loans, learning from a "success story" of real Armenian female entrepreneurs can act as a catalyst for entrepreneurial aspirations among other women. This solution does not require significant expenditures, but more efficient use of existing channels for information dissemination (e.g. SME DNC branch network countrywide, printed materials and TV programmes).

**Intervention 4: Rural Development/Reduction of Territorial Discrepancies: significantly decrease dis-proportional territorial development, and increase the income of rural population**

**Priority bottleneck: Lack of access to agricultural markets, extension services, quality inputs and services to stimulate agricultural production and farm employment**

Removal of this bottleneck is related to **coordination of state and non-state funded rural development initiatives/projects and replication of "successful" models in other regions**. This area is recognized by the state as a priority and is reflected in the Agricultural and Rural Sustainable Strategy for 2010-2020 and various projects that have been/are being implemented by various actors (e.g. World Bank Agricultural PIU, MCC/MCA, IFAD, SDC etc.).

For instance, successful commercialization of livestock related extension/community veterinary services by SDC funded “Syunik Livestock Development Project” and other projects have been implemented based on the priorities set by the Agricultural and Rural Strategy for 2010-2020 of RA.

The Ministry of Agriculture can take a more pro-active role in coordination, networking and facilitation amongst various actors in the area of agricultural and rural development, and help improve the efficiency of donor and state funded programmes, as well as the geographical and programme coverage expansion based on best practices. Some progress in this area has been registered but needs to be further accelerated. Though the solution cannot be fully achieved by 2015, still a significant progress can be envisaged addressing needs of at least 50 percent of the rural population.

The table below summarizes priority activities, priority bottlenecks and their solutions for each intervention. The solutions summarized below can be implemented over the short- and medium-terms.

**Table 7: Prioritized Short- Medium-Term Solutions for Promoting Youth Employment**

Intervention	Priority activities	Priority bottlenecks	Solutions
1. Employment policy	Priority activity 1.1 Improve the effectiveness of public services (employment services, preparation and training, consultancy) especially in rural and borderline areas	Lack of information on state employment programmes that support job creation among youth	Implement a set of advocacy and awareness raising activities on public employment programmes, including the following: provide the public with information on ongoing programmes on a regular basis via mass-media; develop a TV programme devoted to youth employment issues; organize periodic meetings with youth in rural areas
	Priority activity 1.2 Organize vocational orientation, preparation and training services for youth at <i>marz</i> and community youth centres, involving employment service specialists, as well as representatives from higher educational system and businesses	Lack of information for students and unemployed people on jobs most in demand by labour market	Create an integrated database on the labour market by the State Employment Services Agency, including the collection of information on vacancies from employers in various sectors, and periodically analyzing and disseminating the job trends and other data to the wider public
		Physical inaccessibility of youth centres for people in many communities, as well as technically underequipped centres and lack of trained human capital	<ul style="list-style-type: none"> <li>✓ Establishment of new youth centers in different <i>marzes</i> adjunct to the State Employment Services or as separate divisions, and creation of websites (or separate pages at the Agency website) for each centre to enable registration online;</li> <li>✓ Organizations of capacity building trainings for the centres' employees, (IT and computer skills, business counselling capacities) and providing centres with modern equipment (computers and their devices)</li> </ul>
Priority activity 1.3 Introduce economic stimuli aimed at increasing employers' willingness to hire youth with qualifications matching labor market demand	Low awareness of the community and <i>marz</i> population, as well as businessmen and experts of the activity of existing youth centres	Dissemination of centres' activities via mass media, organization of meetings with businessmen and experts	
		Low motivation of employers to hire recent graduates or young people with no work experience (provide an opportunity for on-the-job-learning), or to organize internships and apprenticeship programmes	Define tax privileges and other incentives for employers who involve young specialists without work experience, especially in rural and borderline areas

Intervention	Priority activities	Priority bottlenecks	Solutions
<p><b>2. Education</b></p>	<p><b>Priority activity 2.1</b> Strengthen the professional education system to meet labour market requirements</p>	<p>Inadequate linkage between the vocational education system and labour market (employers)</p> <p>Existing vocational curricula do not address vocations in demand in Armenia</p>	<p>Strengthen the link between youth centres and educational institutions (schools, vocational education institutions, higher education institution)</p> <ul style="list-style-type: none"> <li>✓ Prioritize vocational educational programmes for the export-oriented sectors, and involve employers in the curricula development</li> <li>✓ Train a new cadre of instructors that can teach subjects most in demand by the export oriented industrial policy</li> </ul>
<p><b>3. Business and investment environment</b></p>	<p><b>Priority activity 2.2</b> Develop a vocational orientation system, and a lifelong learning system relevant to the labor market requirements</p>	<p>Lack of public financing of education, especially on vocations that are highly in demand</p>	<ul style="list-style-type: none"> <li>✓ Based on labour market demand analysis, develop a system to define the number of students that will be financed by the Government (through a state order) in higher education and vocational education institutions</li> <li>✓ Develop mechanisms for public-private partnership (PPP) between the vocational educational institutions and employers</li> </ul>
<p><b>4. Rural Development/Reduction of Territorial Discrepancies</b></p>	<p><b>Priority activity 3.1</b> Provide newly established and operational SMEs (including youth start-ups) with credit guarantees, marketing and training services</p> <p><b>Priority activity 3.2</b> Support women entrepreneurship and promote credit programmes directed to economic initiatives of women, especially in rural communities</p>	<p>Inadequate coordination of SME support programmes in Armenia</p> <p>Low awareness of SME support programmes in Armenia</p> <p>Low affordability of loans for rural women and youth</p> <p>Insufficient promotion of female entrepreneurs' success stories and no platform for exchanging experience and business counseling</p> <p>Lack of access to agricultural markets, extension services, quality inputs and services to stimulate agricultural production and on-farm employment</p>	<p>Improve the efficiency of delivery of SME support services through better coordination between relevant state institutions and donor funded projects</p> <p>Scale up business development services, including sharing of success stories of enterprises in rural communities</p> <p>Create new affordable loans for entrepreneurs-beginners, especially, young people</p> <p>Introduce a network of experience exchange, business counseling and disseminate best practices by business-women</p>
<p><b>4. Rural Development/Reduction of Territorial Discrepancies</b></p>	<p><b>Priority activity 4.1</b> Improve quality and accessibility of local public services in <i>marzes</i>, including affordable financial services, regional markets and community infrastructure</p>	<p>Lack of access to agricultural markets, extension services, quality inputs and services to stimulate agricultural production and on-farm employment</p>	<p>Coordinate state and non-state funded rural development initiatives/projects, and replicate "successful" models in other regions</p>

Below, longer-term solutions, that would notably improve youth employment, are presented in three areas (employment policy, business environment and investments, and rural development).

**Table 8. Longer-Term Solutions Supporting Structural Issues**

INTERVENTION	LONG-TERM SOLUTION
Employment	<ul style="list-style-type: none"> <li>✓ Strengthen regional and other export markets:               <ul style="list-style-type: none"> <li>○ Support measures that facilitate export and transit of goods between Armenia and trade partners in the Commonwealth of Independent States (CIS) and the European Union (EU) countries</li> <li>○ Support marketing, packaging and other services to improve the competitiveness of Armenian exports, especially agricultural goods</li> </ul> </li> <li>✓ Introduce and develop legalized and protective regional labour exchange services with key countries (Russia, Belarus, Ukraine, other CIS countries). This measure can help protect the rights of labour migrants (especially youth), and can also serve as a counseling and experience sharing initiative. Diaspora can play significant role in this process</li> </ul>
SME/business development	Identify and address specific structural constraints for developing successful SMEs run by women and youth, such as access to regional markets; competitiveness of products, financial and business support services
Rural development/reduction of territorial discrepancies	<ul style="list-style-type: none"> <li>✓ Identify specific opportunities for export value-added, such as Fruit Armenia, eco-tourism and other special initiatives based on regional specifics and assets</li> <li>✓ Scale up successful pilots by linking to regional trade markets</li> </ul>





**CHAPTER V – MDG Acceleration  
Plan: Country Action Plan [2012-1015]**

## CHAPTER V – MDG Acceleration Plan: Country Action Plan [2012-1015]

Intervention	Bottlenecks	Solutions	Estimated Commitments		Partners				
			MTEF Allocation US\$	Pipeline US\$					
<b>EMPLOYMENT POLICY: PROMOTE EMPLOYMENT AND JOB PLACEMENT FOR YOUTH</b>  <b>Activity 1.1. Improve the effectiveness of public services (employment, vocational orientation, training and business consultancy) especially in rural and borderline areas</b>  <b>Activity 1.2. Organize vocational orientation, preparation and training services for youth at marz and community youth centres, involving employment service specialists, as well as representatives from the higher educational system and private sector.</b>	Lack of information on state employment programmes, that support job creation among youth  Lack of information for students and unemployed on labour market demand  Physical inaccessibility of youth centres for people in many communities, as well as technically under-equipped centres, and state employment agents).	Implement a set of advocacy and awareness raising activities on employment programmes: Provide information on ongoing programmes on a regular basis via mass-media; Develop a special TV programme/series devoted to youth employment and state programmes supporting job creation; Organize periodic meeting with youth in rural areas (involving private sector representatives, vocational education providers and state employment agents).	55,000.00		Ministry of Territorial Administration, Ministry of Economy, Ministry of Labor and Social Affairs, State Employment Service Agency, Ministry of Sport and Youth Affairs, UNDP, Other Donors, NGOs, Mass Media.				
						Service utilization (demand)	22,000.00		State Employment Service Agency, Ministry of Labor and Social Affairs, Ministry of Education and Science, Ministry of Sport and Youth Affairs, National Statistical Service, UNDP, Other Donors, NGOs, Private Companies.
							250,000.00		Ministry of Labor and Social Affairs, State Employment Service Agency, Ministry of Sport and Youth Affairs, UNDP, Other Donors, NGOs.

Intervention	Bottlenecks	Solutions	Estimated Commitments		Partners
			MTEF Allocation US\$	Pipeline US\$	
Activity 1.3. Introduce incentives to increase employers' willingness to hire youth with qualifications matching labor market demand		Organize capacity building trainings for youth centres' employees, to improve their IT and computer skills, and provide centres with modern equipment.	45,000.00		Ministry of Territorial Administration, Ministry of Labor and Social Affairs, State Employment Service Agency, UNDP, Other Donors, NGOs.
	Low awareness of the community and marz population, as well as businessmen and experts of the activities of existing youth centres	Disseminate youth centres' activities via mass media, and periodically organize meetings with business representatives and experts.		25,000.00	Ministry of Territorial Administration, Ministry of Economy, Ministry of Labor and Social Affairs, State Employment Service Agency, Ministry of Sport and Youth Affairs, UNDP, Other Donors, NGOs, Mass Media, Private Companies.
	Low motivation of employers to hire recent graduates or young people with no work experience (giving an opportunity for on-the-job-learning)	Define tax privileges and other incentives for employers who involve young specialists without work experience, especially in rural and borderline areas.	-		Ministry of Finance Ministry of Economy Ministry of Labor and Social Affairs, UNDP, NGOs, Private Companies/ Professional Associations
	TOTAL:		317,000.00	80,000.00	

Intervention	Bottlenecks	Solutions	Estimated Commitments		Partners
			MTEF Allocation US\$	Pipeline US\$	
<b>EDUCATION: PROVIDE YOUTH WITH OPPORTUNITIES TO RECEIVE QUALITY EDUCATION THAT COMPLY WITH THEIR ASPIRATIONS AND CAPACITIES</b>  <b>Activity 2.1. Strengthen professional education meeting labour market requirements</b> <b>Activity 2.2. Develop a vocational orientation and lifelong learning system relevant to the labor market demand</b>	<p>Inadequate linkage between vocational education system and labour market (employers)</p> <p>Existing vocational curricula do not address vocations in demand in Armenia</p>	<p>Strengthen the link between youth centres and educational institutions (schools, vocational educational institutions, higher educational institutions)</p> <p>Prioritize vocational educational programmes for the export-oriented sectors, and involve employers in the curricula development</p> <p>Train a new cadre of instructors that can teach subjects most in demand by the export oriented industrial policy.</p>	15,000.00		<p>Ministry of Labor and Social Affairs, State Employment Service Agency, Ministry of Education and Science, Ministry of Sport and Youth Affairs, UNDP, Other Donors, NGOs.</p>
			120,000.00		<p>Ministry of Economy, Ministry of Education and Science, Ministry of Labor and Social Affairs, Ministry of Sport and Youth Affairs, Private Sector representatives Professional Associations UNDP, Other Donors, NGOs.</p>
			100,000.00	170,000.00	<p>National Center for VET Development National Institute of Education Ministry of Education and Science Ministry of Economy, Ministry of Labor and Social Affairs, Ministry of Sport and Youth Affairs, UNDP, Other Donors, NGOs.</p>
					Service delivery (supply)

Intervention	Bottlenecks	Solutions	Estimated Commitments		Partners
			MTEF Allocation US\$	Pipeline US\$	
<b>BUSINESS AND INVESTMENT ENVIRONMENT: CREATE A FAVORABLE BUSINESS AND EMPLOYMENT ENVIRONMENT FOR YOUNG PEOPLE IN ORDER TO PROMOTE THEIR BUSINESS INITIATIVES, ENHANCE NON-AGRICULTURAL EMPLOYMENT IN RURAL AREAS</b>  Activity 3.1 . Provide new and existing/ operational SME-s (including youth start-ups) with credit guarantees, support in promoting their products and services on markets, provide business consultancy and training	Lack of public financing of education, especially on vocations that are highly in demand  TOTAL:	Based on labour market demand analysis, develop a criteria to define eligibility of students to be financed by the Government (through the State Order) for higher education and vocational education institutions; Develop mechanisms for public-private partnership (PPP) between vocational educational institutions and employers (for particular vocations, employers may have their investment).	15,000.00	300,000.00	Ministry of Education and Science Ministry of Economy Ministry of Finance Ministry of Labor and Social Affairs Ministry of Sport and Youth Affairs  State bodies Private Companies Donors
			235, 000.00	485,000.00	
<b>Service delivery (supply)</b>  Activity 3.1 . Provide new and existing/ operational SME-s (including youth start-ups) with credit guarantees, support in promoting their products and services on markets, provide business consultancy and training	Inadequate coordination of SME support programmes in Armenia  Low awareness of SME support programmes in Armenia	Improve the efficiency of delivery of SME support services through better coordination between relevant state institutions and donor funded projects.  Scale up business development services, including sharing of success stories of enterprises in rural communities	35,000.00		Ministry of Economy, Ministry of Education and Science, Ministry of Labor and Social Affairs, Ministry of Sport and Youth Affairs, UNDP, World Bank, GIZ, Other Donors, NGOs, Private Companies.  Ministry of Territorial Administration, Ministry of Labor and Social Affairs, UNDP, GIZ, Other Donors, NGOs, Private Companies (especially female headed).

Intervention	Bottlenecks	Solutions	Estimated Commitments		Partners
			MTEF Allocation US\$	Pipeline US\$	
	Low affordability of loans for rural women and youth	Introduce new affordable loan schemes for entrepreneurs- beginners, especially, young people	750,000.00	450,000.00	Ministry of Finance Central Bank Commercial Bank Ministry of Economy Ministry of Sport and Youth Affairs, UNDP, World Bank, GIZ, Other Donors
	Insufficient promotion of female entrepreneurs' success stories and no platform for exchanging experience and business counseling	Create a network of experience exchange, business counseling and dissemination of best practices by businesswomen	35,000.00		Ministry of Territorial Administration, Ministry of Economy, Ministry of Labor and Social Affairs, UNDP, World Bank, GIZ, Other Donors, NGOs, Private Companies (especially female headed).
	TOTAL:		820,000.00	450,000.00	

Intervention	Bottlenecks	Solutions	Estimated Commitments		Partners
			MTEF Allocation US\$	Pipeline US\$	
<b>RURAL DEVELOPMENT/ REDUCTION OF TERRITORIAL DISCREPANCIES: SIGNIFICANTLY DECREASE UNPROPOR- TIONAL TERRITORIAL DEVELOPMENT, CONTRIBUTE TO INCREASE OF RURAL POPULATION REVENUES</b>  <b>Activity 4.1. Improve quality and accessibility of local public services in marzes, including affordable financial services, regional markets and community infrastructure</b>	Lack of access to agricultural markets, extension services, quality inputs & services to stimulate agricultural production & farm employment	Coordinate state and non-state funded rural development initiatives/projects and scale up "successful" models in other regions		200,000.00	Ministry of Territorial Administration, Ministry of Economy, Ministry of Agriculture World Bank UNDP IFAD GIZ Other Donors Private Companies
<b>Total Budget, US\$</b>			1,372,000.00	1,215,000.00	
<b>Grand Total, US\$</b>			2,587,000.00		

