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Diaspora's Contribution to Armenia's Economic Development: What drives the First Movers and how their efforts could be scaled up?

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Introduction

Ever since Armenia achieved its independence and sovereign status on September 21, 1991, a new cornerstone was opened for Armenia-Diaspora relations. The large Armenian Diaspora, widely dispersed throughout the 5 continents, had successfully preserved the nation's independence aspirations across generations born far from the homeland. This nationalistic tradition along with a strong sense of Pan-Armenian solidarity helped to mobilize an unprecedented amount of Diaspora support to the newly constituted state. Over more than a decade, the Armenian Diaspora excelled in generating international political support for Armenia, in the development, funding, and implementation of humanitarian aid programs, as well as in mobilizing private transfers to the Armenian population. There has been a broad consensus that the Diaspora is an invaluable and fundamental resource for the economic, social and political development of Armenia. At the same time, it is accepted that there is a considerable gap between the massive humanitarian contribution of the Diaspora and its much more modest participation in Armenia's economic life (Freinkman 2001, Samuelian et al. 2003, Manasaryan 2004). In short, the Diaspora's contribution to Armenia's long-term development agenda is considered to be much below its potential. This includes the low level of Diaspora investments and business participation, as well as the limited role of the Diaspora's organizations in the ongoing debate on Armenian development policies.

It is estimated that the Armenian Diaspora accounts for about 5.5 million individuals,¹ which by far exceeds the number of Armenia's residents (3 million). About two-thirds of the Diasporans live in just two countries, USA and Russia. Conservative estimates suggest that the aggregate annual family incomes of 1 million Armenians who live in California may be 15 times higher than the entire GDP of the Armenian economy. It is also believed that about 1 million people left Armenia since 1988 creating what is called the new Diaspora. The peculiar feature of this latest emigration is that it is highly skilled. Based on partial available data, it is estimated that around 30 percent of emigrants had a college degree, while 50 percent had at least a high school-level education (World Bank 2002).

This paper is concerned about ways to close the above gap and expand the Diaspora's contribution to Armenia's long-term development agenda. The paper has two main inter-related objectives. First, it is to find some common factors that could explain the proactive involvement and dynamics of a small group of Diaspora business people who, contrary to the common trend, have been rather active in and with Armenia. Second, based on these findings, develop recommendations, consistent with the Diaspora's institutional capabilities, which could help increase the number of such business activists and more generally facilitate the transformation of the mainstream Diaspora interests in Armenia from humanitarian relief campaigns to business initiatives and development projects.

The paper's analysis is based on the review of the accumulated entrepreneurial experiences of Diaspora business people in Armenia. The main empirical evidence for the paper comes from detailed interviews with a group of Diaspora entrepreneurs, who have been Armenia's early investors. From the economic theory point of view, these people are the classical first movers – economic agents who are ready to take additional risks and, when successful, are seen by their peers as role models for replication and follow up. In addition, several of our interviewees are influential members of their respective Diaspora communities.

¹ Estimated by the Armenian Ministry of Foreign Affairs (Samuelian et. al 2003).

Overall, it is believed that the group's members are well positioned to reveal meaningful insights on both accounts: a) what would an efficient incentive structure for Diaspora investors be; and b) what are the core bottlenecks that hinder expansion of the Diaspora business involvement in Armenia.

The rest of the paper has the following structure. The next two sections present a brief review of the earlier related research of Armenian Diaspora mobilization and the brief description of our interviews. This is followed by our analysis of these insights. We also suggest our interpretation of the lessons from Armenia-Diaspora cooperation to date. The concluding section provides specific recommendations on directions to facilitate Armenian Diaspora mobilization. The annex summarizes our other interview findings. It also contains some interesting direct quotes from the interviews and other relevant factual information.

Review of earlier research

A specific literature review on the Armenian Diaspora and its contribution to Armenia's long-term development agenda was conducted prior to the interview process. Current existing Diaspora literature is prolific on sociological, psychological, historical, ethnographical, gender and identity aspects of the Armenian Diaspora. However, traditionally there were a limited number of studies that focused on the economical and business aspects of Armenia-Diaspora relations. However, in the course of the last two years this gap has been partially closed through several research initiatives.

Amirkhanian (1997) considers different aspects of the Armenian Diaspora contributions to the socio-economic development of Armenia in the periods before and after independence. He emphasizes a complexity of the relationship between the Armenian Government and the Diaspora, which has been a source of considerable limitations for Diaspora investments. He points to the fact that the rules for Armenia-Diaspora interactions are largely defined by the Government in Yerevan, which at least at the time of his writing provided quite a limited and selective support to Diaspora investors. Amirkhanian underlines a demand side of the Diaspora investment process: "Significance of the Diaspora will come down to whether the local Armenians can afford to share their limited resources and opportunities with the outsiders" (p. 21).

Gillespie et al. (1999) examine determinants of interest in homeland investment for four different Diaspora communities (emigrants and their descendants from Armenia, Cuba, Iran and Palestine) in the US and analyze whether such determinants can be generalized across these four groups. They found consistent support across all four communities for the hypotheses that altruistic motivations of respondents and their perceptions of ethnic advantage at home country markets have a positive effect on interest in homeland investment. At the same time, the perception of business impediments in homeland economies proved to be insignificant in determining interest in investment².

Among the four groups, representatives of the Armenian Diaspora who participated in the survey showed the least interest in foreign direct investment in the home country. However, it is worth noting the serious limitation of such a direct comparison: the Armenian participants of the survey differed considerably from those representing other Diaspora groups because they were not direct émigré from the homeland. The Armenian Diaspora in the US is largely the "old Diaspora" (whose relatives left historical Armenia several generations ago) and, more importantly, they do not have direct family roots in the territory of modern Armenia (they came from what is currently Turkey and other countries in the Middle East). Thus, it is somewhat natural that the individual propensity to invest in the homeland should be weaker among Armenians relative to more conventional and "younger" Diasporas. Among Armenian respondents, the self-employed had the strongest interest in homeland investments.

² It is worth noting that the Gillespie's study focused on only (potential) interest in homeland investment. As is well-known from various investment research, there is a considerable and understandable gap between investment intentions and actual investment decisions.

Freinkman (2001) uses the example of the Armenian Diaspora to explore the potential role of the Diaspora for a home country in transition to a market economy. While noting the significance of Diaspora contributions to mobilization of both humanitarian aid and foreign developmental assistance to Armenia, he highlights the imbalance between these successful efforts and insufficient Diaspora contributions to the development agenda in the form of FDI, business partnerships, advisory services to local businesses, and participation in the local debate on improving the investment climate. He argues that such an imbalance has been rather detrimental to both the quality and sustainability of Armenian growth – the prevailing forms of Diaspora assistance have been sub-optimal in terms of job creation, poverty reduction and a decline in emigration.

The National Human Development Report (UNDP Armenia 2001) offers a synthetic description of the first 10 years of Armenia–Diaspora relations since independence. While noting that a large and affluent Diaspora represents a potential competitive advantage for Armenia, the report called for a more intensive participation of Diaspora communities in developing and implementing Armenia's foreign economic policy.

Samuelian et al. (2003) analyze the determinants of broad social trends in modern Diaspora, including factors that shape its attitude to Armenia. They emphasize the serious weaknesses of Diaspora institutions, which are narrow-based, too personality-driven and often seen by most community members as controlled by specific individuals and groups. Moreover, Diaspora institutions continue to focus on its historical agenda, which was developed by and for immigrants, rather than expanding and diversifying the agenda to reach a larger majority of Armenians in the Diaspora. This explains why as the survey reveals, the Diaspora's contacts with Armenia rely on ad hoc personal ties rather than on Diaspora institutions. At the same time, this paper suggests that a new generation of Diaspora has leaders who are largely disconnected from traditional organizations and who are beginning to build links across the traditional Diaspora divides. It remains to be seen, however, if these leaders are ready to make a long-term commitment "of building Armenia into something remarkable".

Gevorkyan and Grigorian (2003) examine the extent of the Diaspora's current involvement in Armenia's development and propose the introduction of new institutional avenues to facilitate Diaspora investment in Armenia through non-traditional financial instruments (such as Diaspora bonds and investment funds) and the creation of a Pan-Armenian Development Bank.

Gillespie and Adrianova (2004) present a case study of three large Armenian Diaspora initiatives to support business development in Armenia, launched on the principles of social entrepreneurship. They point to serious institutional constraints such initiatives face in situations where Diaspora sponsors are either unable or unwilling to become personally involved in managing their project implementation, but instead delegate this management to various local partners, such as government agencies or commercial banks. The study also underlines that, as should be expected, the analyzed programs were quite demanding in their management requirements and were prone to implementation risks. However, the sponsors apparently were not prepared to deal with such risks in a systematic way. Instead, they reacted to the implementation problems by a re-orientation of the initiatives toward financing of more traditional charitable or infrastructure projects. Gillespie and Adrianova also claim that the lack of direct Diaspora management contributions has been a major flaw of the analyzed programs. It robbed participating Armenian SMEs from the key advantage that "angel investors" usually bring to the businesses they help to develop – strategic advice on customers, suppliers, and key personnel. Armenian SMEs need the latter much more than funding provided to them by the analyzed Diaspora programs.

Manasaryan (2004) aims at identification of the core factors hampering the Armenia-Diaspora cooperation in the area of economic development. He points out that the actions of both sides are affected by a lack of strategic approach to the development agenda. After 1998, the Government of Armenia made numerous attempts to expand the use of the Diaspora's business potential and to facilitate its political unification. However, no strategic cooperation plan aimed at Diaspora mobilization has been worked out yet. Two large Diaspora conferences held in Yerevan were mostly symbolic and resulted in little tangible outcomes. At the same time,

traditional Diaspora organizations failed to react to Armenia's independence by adjusting its traditional cultural and nationalistic agenda and making a stronger emphasis on supporting development of the independent state. In almost 15 years since independence, they failed to offer any significant reform and modernization project for Armenia. Manasaryan doubts the potential of the traditional Armenian Diaspora to become more efficient in this respect because of their weak historical and cultural connections with present-day Armenia. He suggests that more emphasis has to be given to the mobilization of the newest Diaspora, for whom Armenia remains of everyday concern and who also show a much higher tolerance of potential risks associated with doing business in Armenia.

Roberts (2004) analyzes the incidence of remittances and private external transfers to Armenia and their impact on the country's macroeconomic performance. For this he develops a set of alternative estimates for the annual aggregate amount of private transfers. He concludes that such transfers may be three times above the official estimates for remittances. Roberts highlights the importance of private transfers for poverty reduction in Armenia, as well as for savings and financing of household investments in home improvements, land acquisition, and children's education. However, he does not find any systematic evidence that the transfers fuel business development, e.g., through SME creation.

Sample, interview description, and main recommendations made by respondents

Our sample included experiences of business people from Armenian communities of the U.S (mainly East Coast), Argentina and of those Diaspora Armenians that are actually living or have lived in Armenia while running their businesses and/or working on the development of their future business projects. The business experience of participants mostly belong to the services sectors, including finance, transportation and communication, information technology, health care, hospitality and legal services. Due to a constrained project budget, the sample could not be expanded to other geographical areas. A major deficiency of the sample relates to its exclusive coverage of the "old" Diaspora. The views of the new Diaspora activists, including those from Russia, which are considered to have quite different attitudes and judgments on the issue, are not reflected in the paper.

We designed a semi-structured questionnaire to conduct in depth interviews, which were done either on a personal basis or by telephone (see Annex 1 for sample questionnaire). A total of 15 interviews were conducted in the course of 2003. For most of the cases we tape-recorded the interviews and, where respondents preferred it, hand notes were taken. Most of the respondents preferred to remain anonymous when expressing their views and opinions.

As stated in the objective of our analysis, we wanted to explore and understand the leading factors that trigger the engagement of these entrepreneurs in business development in Armenia and whether they shared some commonalities in their motivation and pre-investment experience. Thus, we defined three core areas of inquiry for our interviews.

The first area was related to visiting Armenia. We looked at their travel perceptions during the pre-investment period and understood how the interviewees framed themselves during these visits.

The second area of our interest consisted in exploring the nature of their investments in Armenia and how aware the Diaspora activists are about other business opportunities in the country. We asked them about their business experiences in Armenia and whether they were compatible with the ones they actually run – or had run -- back in their countries of permanent residency. We wanted to understand why they had chosen Armenia and not other countries to invest in. Also we asked them how they presently (ex-post) evaluated their earlier investment decisions and what they think now about their initial expectations on both Government policies and their own business prospects. In an attempt to understand what kind of information channels are available to potential investors, we also asked them if and what they know about business projects started by other Diaspora investors and how they heard about such projects.

Finally, we explored the role of professional affiliation and collective project venturing by the Diaspora. We theorized whether the existence of Diaspora professional associations can facilitate the development of the institutional and incentive framework to mobilize and support Diaspora investments and knowledge transfer to Armenia. We also explored the possibilities for collective investments and development projects to be sponsored by Diaspora groups. The last question was related to the respondents' role of community opinion makers -- we asked what kind of advice they may give to peers who want to initiate a business venture in Armenia or are actually in a start-up phase.

Recommendations on future Diaspora knowledge transfer and business investments in Armenia

In the course of the interviews we also sought the respondents' advice for the Diaspora's peers who may be willing to start businesses or provide development assistance in Armenia. The following summarizes the main messages on the subject:

- **Do business in Armenia in the same mode as you do in the rest of the world, but be patient and do not expect immediate results.**

"You have to follow the same instinct that you do in starting a company in any country. [...] Where you should give the benefit of the doubt, give the little extra benefit of the doubt or use that to fuel your passion of doing business in Armenia -- but don't - specially if you are an Armenian-American, Armenian-French or whatever -- don't let that passion... cloud your business judgment. Treat it like you would any other business with the same precautions. Uh...you know, have a contract, do things right, don't just do things on a handshake. Don't just trust the person because "oh, he is Armenian, he is not going to screw me". [...] Don't think they are going to do you any favors or that you should do any favors. Just have a little extra patience and explain things."

"[...] The expectations that Diaspora Armenians have about Armenia are sometimes absolutely incredible [...] We should manage expectations better [...] Diaspora who go there expect favors from the Government like tax holidays [...] In fact, as responsible citizens, we should be paying taxes..."

- **Suppress (ethnic) Armenian passions and be more tolerant and patient in the course of initial training instead of developing immediate negative feelings.**

"[...] I think that if you are going to have that Armenian-ness drive you or lead you, have just a little extra patience, maybe take an extra step to teach, an extra step to explain that maybe you would not take in other circumstances, allow one mistake or two mistakes more maybe. But I would say, don't use that Armenian-ness to a point that you're being stupid or foolish in a business. You do business the way you do business anywhere [...]"

"[...] You have good opportunities, you have good talented people and... you say "for Armenia I can make it" [...] There is altruistic reasoning, trying to help to develop the country [...], but business is business, you have to go in there with a profit mode."

- **Adjust expectations. Work on lowering prejudices to be more cooperative.**

"[...] Non-Armenian investors are more successful than Armenian investors in Armenia because they do not come with pre-judgments and expectations, they know that this is an emerging country, [...] they know how to cope with it."

"[...] Armenians have a serious problem trusting each other [...] Armenians have always been loyal servants to others but when it comes to other Armenians they won't support each other [...]"

- **Use Diaspora Professional Associations to learn the basics of business and technical assistance.**

“The people in our Association came together and we discussed things like... how to behave in a trade show because for many companies it was going to be the first time to exhibit at an international trade show. So... just simple things like you smile, you look at the person in the eyes, you shake the hands..., these soft issues [...] Stupid things like this, but they add up! An Association might be a good way to spread that information in a good way...”

- **Share your success story for others to know they can be successful and get motivated to experience Armenia.**

Lessons from Armenia-Diaspora cooperation over the years of independence

In the years since independence, fourteen large Diaspora organizations have mobilized about US\$900 million in assistance to Armenia. A considerable part of this funding was of non-Armenian origin (Manasaryan 2004). The Government-sponsored Pan-Armenian Fund Hayastan, one of the main channels of Diaspora aid, has spent a total of US\$75 million on 138 different infrastructure projects in Armenia and Nagorny Karabakh in the first ten years of its operations. Roberts (2004) suggests that private transfers to Armenia (which remain outside of the official charity channels) amounted recently to US\$900 million a year, which is about 30 percent of Armenia’s official GDP. However, only one-third of this amount are transfers from the emigrants (i.e., Diaspora), while the rest are traditional working remittances made by non-emigrant Armenians who are working abroad on a temporary basis.

The Diaspora clearly has a potential to help Armenia, and its members express a strong desire to do so. The global survey of Armenians in Diaspora undertaken for the Armenia 2020 project in early 2003³ showed that about 70 percent of respondents would be willing to help with marketing of Armenian products in their countries of residence. And the same number of participants claimed that the most effective way to help Armenia is to make business investments there. At the same time, about 90 percent of Armenians in Armenia would like to see the Diaspora play a more active role in Armenia’s economic development.

The reality of Diaspora mobilization remains below this potential. It became rather common to talk about a crisis in Armenia-Diaspora relations. The level of mutual trust is quite low, and there have been too few influential champions who still try to change the status quo.⁴ Manasaryan (2004) describes the situation as a classical Catch 22 -- to get Diaspora more intensively engaged in its development, Armenia needs to go through a comprehensive modernization, but modernization is impossible without Diaspora support. Armenia has to become much more liberal, diverse, and tolerant to be attractive to such a diverse group as the modern Diaspora. But internal forces who could lobby for such diversification remain too weak in Armenia.

The principal lesson from the Diaspora experience with Armenia since independence is that a massive program of humanitarian assistance, not complemented by an active business support and investment program, is not sustainable (Freinkman 2001). It eventually fuels emigration and concentration of economic power. It does not help (but just delays) resolution of the most important challenges of transition and economic reconstruction. If the Diaspora is wealthy and powerful to be capable of mobilizing considerable resources in support of the home country, it should make sure that a good portion of the entire envelop is channeled for business development and the private sector.

Humanitarian assistance and unconditional political support provided by the Diaspora to the Armenian government in fact became one of the factors responsible for a delay of critical domestic reforms, especially in the business environment. Against expectations, the Diaspora organizations did not play a role of economic reform advocates, which ultimately eroded local demand for further reforms. Thanks to the massive Diaspora support, the ruling elite in Armenia received additional resources for survival that in the 90s provided a breathing space for delaying necessary reforms despite extreme poverty and emigration of the skilled population.

³ As reported by Manasaryan (2004).

⁴ Samuelian et al. (2003) interpret the results of their survey in terms of “a sense of malaise” with respect to Armenia-Diaspora relations.

Provision of massive humanitarian assistance suggests that the Diaspora community takes serious responsibility for the current state of Armenia. The same responsibility requires playing a more active role in the country's economic development. In other words, humanitarian assistance without investments proved to be an irresponsible strategy. Future Diaspora assistance should have a somewhat different structure and target different recipients.

The following suggestions could become elements of the alternative strategy for the Armenian Diaspora in the current political and economic environment of Armenia:

- Diaspora organizations should find a way to engage in the ongoing Armenian debate on the country's development strategy. Some capacity has to be developed (probably in cooperation with local think tanks) to become a partner (and sometimes a critic) to the Government in policy discussions on key development challenges.
- The Diaspora economic program in Armenia has to make an emphasis on a promotion of economic liberalization at the micro level – creating equal economic opportunities, removing entry barriers for new businesses, reducing costs of doing business, etc.
- Emphasis should be made on new types of Diaspora-backed projects in Armenia -- not just humanitarian relief, but helping with the transfer of business skills (helping Armenian enterprises to enter world markets; supporting business and managerial training of new business owners and managers in new companies).
- Supporting organizations of new local private businesses (independent business associations) that are not linked to the political structure of the ruling elite – with time these organizations will become the main driver for further domestic reforms.
- Strengthening Diaspora professional organizations is a key to this strategy. A new type of Diaspora activist is wanted -- people who not just run fundraisers and lobbying campaigns, but are ready to be involved with day-to-day development efforts, including private sector advocacy, regulatory reform, and participation in technical assistance programs.

Because the business realities in Armenia may remain for some time rather difficult for individual Diaspora business engagement, a practical strategy for Diaspora leaders to think about would be collective investment instruments to share risks, such as equity funds and/or a Diaspora development bank. These should be seen as umbrella projects to facilitate new private entry in the Armenia economy from the Diaspora and elsewhere.

Another lesson to be drawn from the Diaspora experience in Armenia relates to the utilization of international assistance, first of all, assistance provided by the US Government. While the Armenian Diaspora managed to mobilize record amounts of US assistance for Armenia, they were until very recently not participating in designing specific assistance projects or in general monitoring of how the funds were spent. It seems that it would be far more efficient if the Diasporan organizations and Diaspora activists had been playing a more active role in implementation of US Government-funded projects.⁵ This could be done at the level of professional organizations of the Diaspora that would become contractors of the USAID etc., or at individual levels, when people could go to Armenia to become advisers in local NGOs, Government agencies, and consulting firms. Otherwise, there is a striking contrast between Diaspora activism at the stage of pushing relevant appropriation bills through the US Congress and little interest in actual benefits these allocations bring to Armenia.

One may also argue that when and if the Diaspora is ready to play a more active role in setting a development agenda for Armenia, it would naturally help to restructure the existing programs of bilateral technical assistance toward more productive instruments and projects, such as e.g., direct support to new organizations of the private sector, short-term internships for new business owners in foreign firms, and matching grant schemes for Diaspora entrepreneurs who could try to pilot projects in Armenia, etc.

Building of trust and collective projects

⁵ This also includes utilization of more conventional funding opportunities provided by the US National Science Foundation (NSF) and similar agencies that support international cooperation in technological and business development between US and foreign firms.

This section emphasizes two types of priority actions that could help to start recovering mutual trust in Diaspora-Armenia relations: (i) broadening the dialogue about Armenia's future and its development challenges; and (ii) implementing specific (pilot) projects that could have a signaling effect to all interested parties.

Broadening public dialogue. Building mutual trust is facilitated through a broader dialogue among individuals and organizations. Credible commitments made by diverse participants are a cornerstone in the traditional process of building a local partnership. However, mutual trust is a precondition for such commitments to materialize. Trust develops only gradually as stakeholders engage in a dialogue and commit to each other incrementally and experimentally. Initially, the whole process is driven by individuals (not by organizations) -- champions of the process of innovative joint problem-solving. Honest brokers -- individuals with an established reputation in the community -- are usually critical to launch and facilitate a fruitful dialogue.

Implementation of specific pilot projects. Stakeholders need a shared strategy and trust in longer-term prospects of a local economy before making any specific investments in what is usually considered to be a risky business environment. Yet to gain credibility, vision/strategy formulation should be accompanied by at least some progress with implementation of tangible projects. The basic institution that combines vision with action is a private-public partnership that formulates a strategy in the context of specific low-cost but visible projects. Once these pilot projects demonstrate signs of success, the partnership could scale them up and divest into specific organizations. Some obvious examples of such pilots could be identified in the areas of higher education, innovation and ICT. Distance education and the Millennium Science Initiative (Boxes 1 and 2) are presented below as potential models for Diaspora-Government cooperation on pilot projects.

Box 1. Distance learning as a potential pilot project to involve the Diaspora's expertise and enhance education-industry linkages

Diaspora participation in upgrading education systems of home countries is broadly seen as a priority direction for Diaspora mobilization (Scientific Diaspora 2003). Distance learning could be a low cost opportunity for Armenia to accelerate transfer of global knowledge and upgrade the quality of teaching in its universities. For a landlocked, remotely located country, modern technology could provide the following group of primary benefits:

- Access to high caliber professors and lecturers, who would initially demonstrate how the core modern curricula should be delivered to students and therefore greatly contribute to training and re-training of trainers (local professors). It is worth noting that the availability of professional talent in the Diaspora and the existence of established professional Diaspora networks would simplify the future mobilization of potential participants and could further reduce project costs (many Diaspora members may be ready to such lecturing on *a pro bono* basis). Recent examples from Turkey and Thailand confirm the feasibility of such an educational model.

- Online access to modern experimental facilities and academic libraries.

- Economy of scale -- low cost dissemination/sharing of popular courses among various local universities and training centers.

Participation in distance training could provide many Diaspora professionals with an opportunity for "virtual return" to Armenia, which could be just a first step toward closer and more intense engagement. As with many other collective Diaspora initiatives, the distance learning project, especially in the area of engineering, is likely to lead rather quickly to the second generation of (indirect) benefits. As experience from other countries suggests, professionals participating in advanced educational projects abroad tend to be eager to launch new business ventures with their local partners and frequently with their former students. On a parallel track, the collective efforts of Diaspora activists in the area of university education has the potential to evolve gradually toward more business-oriented projects, undertaken basically by the same group of initial Diaspora sponsors, such as e.g., associated with university business incubators.

Box 2. Establishing National Centers of Excellence through a Millennium Science Initiative

The Millennium Science Initiative (MSI) was launched in Chile and in several other Latin American countries to establish national centers of research excellence. The idea is to channel incremental resources to high priority research areas, selected competitively on science merit. These are the areas where the country has shown some comparative advantage and which can contribute to its long-term economic development. The original project in Chile had a budget of US\$15 million, out of which US\$5 million were funded by the World Bank project, while the rest was provided by the Government. This funding was channeled to 3 local research institutes and 10 smaller research groups to support their projects for the period of 3-5 years.

Source: Agapitova and Watkins (2004), pp. 49-50.

Another promising area for potential Diaspora pilots is associated with the formation of Hometown Associations (Orozco 2004 and F. Torres' chapter in this volume). Hometown Associations (HTAs) are the NGOs of emigrants who came from the same town or region of the home country. They grew rapidly in the 90s among Mexican and other Latin American emigrants in the USA. Some HTAs tend to pool philanthropic contributions by its members to fund small infrastructure projects in their local towns or villages. In recent years, the governments of Mexico and El Salvador initiated the programs to co-finance HTAs investments with budget money. As suggested by Roberts (2004), in the Armenian context, HTAs may have a potential as a tool of mobilization of the new Diaspora, especially in Russia, who have much tighter links with specific locations in Armenia and do not have well-established organizations with pre-set agendas.

In several countries over the last twenty years successful public dialogue and trust building emerged within the framework of the "vision building exercise". In the case of Armenia, the Diaspora played a key role in launching the preparation of Armenia 2020 vision several years ago, although so far the Government has shown inadequate participation in this initiative.

The Armenia 2020 process has been highly successful in engaging an essential amount of Diaspora talent in designing and communicating various potential development scenarios for Armenia. From the perspective of this paper, however, Armenia 2020 has been different from the best international practice in its exclusive focus on vision building. The second pillar of a successful public-private partnership – designing and implementing specific projects – so far has not been utilized by its sponsors. Small, bottom-up projects could be considered critical for lending credibility to the whole process, expanding its support base, and ultimately ensuring its sustainability. Without such a practical component, the process could be easily discredited and painted as a usual social event of wealthy Diasporans that helps the participants to feel good, but makes little difference in real life.

One of the potential directions for the future evolution of Armenia 2020 could be the establishment of the Armenian Development Foundation, which would perform three types of overlapping functions:

- Operate as a think tank with respect to Armenia's development agenda.
- Become a project development facility (support design and feasibility studies for pilot development projects).
- Serve as an administrator for specific development initiatives, such as e.g., various matching grant schemes.

Foundation Chile could be considered a highly successful prototype for such a Development Foundation (Kuznetsov 2003). Organization of a top-level Diaspora leadership conference may be recommended as a venue to discuss the principles and objectives for the Foundation. A key lesson of Foundation Chile for Armenia is the critical importance of key talented individuals – senior managerial team of the organization – who are motivated and

capable of getting things done, all the problems and obstacles notwithstanding. Identifying and nourishing such individuals, who are in short supply everywhere, not just in Armenia, would surely be the greatest conceivable contribution the Diaspora can make to Armenia's development.

Conclusions

Similar to other small low income countries with a relatively educated population, Armenia will face growing demographic pressure for migration for the next 50 years. This pressure would come from the aging population in the developed world, income gaps, falling migration costs, etc. (Ndulu 2002). As usual, the young, entrepreneurial and educated people have the highest propensity to emigrate. In the case of Armenia, this could be further aggravated by the extremely negative demographic outlook in Russia, which is expected to launch an aggressive immigration policy (Vishnevsky 2004). Migration pressures could be the most serious development challenge Armenia will face in the medium to long term. At the same time, it would provide an opportunity for the Diaspora to expand its engagement in Armenia and transfer its support for the homeland in line with the new needs of the country.

The fundamental cause of skilled migration relates to the low local demand for high skills and low return on investment in education (Ndulu 2002). Respectively, strategic directions to address this challenge are associated with the diversified private sector growth and professionalization of the public sector. Diaspora engagement could be critical to help Armenia raise adequate amounts of FDI and create a sufficient number of professional high-productive jobs. However, the Diaspora should demonstrate a much higher degree of commitment to Armenia's development to be capable of making a difference within the available timeframe.

Our analysis suggests several priority directions for cooperation between the Government and Diaspora organizations to facilitate a broader Diaspora engagement into Armenia's development agenda.

First, the personal experience of Armenia through individual travel to the country proved to be a frequent trigger for changing attitudes and switching to more proactive forms of participation. This justifies the development of targeted programs that would facilitate travel to Armenia by successful Diaspora professionals and community activists, who could combine traditional tourism with the development of professional contacts and provision of professional consultations. There is a need to expand opportunities for the Diaspora to participate in summer programs, internship exchanges, serve as business volunteers, including through the established international programs that rely on participation of retired businessmen and managers.

Second, efforts should be made to strengthen Diaspora professional networks and organizations and encourage them to get involved in ongoing debates regarding Armenia's development strategy. Providing Diaspora activists the opportunity to contribute professionally (in addition, to charitable and political support) could become a natural entry point for building mutual trust between the Government and Diaspora organizations, which in turn may lead to more productive cooperation on mutual development projects. A practical way to expand the Diaspora's professional involvement in Armenia could be through their targeted use as partners and contractors for international donor organizations that are involved in delivery of technical assistance to the Armenian government, such as USAID and TACIS.

A related priority is support for the establishment of the organizations in the newest Diaspora, people who left Armenia in the last 15 years and who on average have the strongest links to the country. This covers primarily the Diaspora in Russia and other former USSR countries, but may also be relevant to new emigrants to the US and Canada, who apparently are not well represented by traditional Diaspora organizations.

Third, both the Government and Diaspora should make an effort to upgrade their information capabilities to address the information gap in the Diaspora with respect to Armenia's actual development challenges and actual trends toward improvements in the business

environment. The Government should be concerned about improving its investment image and building awareness within the Diaspora about business opportunities in Armenia. A new communication strategy should be developed to promote the available success stories of Diaspora businessmen, as well as of Diaspora members' professional contributions to Armenia's development (not just humanitarian assistance). Some partnership arrangements between Armenian and Diaspora media outlets should be established with the aim to expand the Diaspora's access to information on development progress and provide the opportunity to participate in policy debates.

Forth, with the help of donor organizations, the Government and Diaspora should try to identify and implement visible collective projects, which could broaden Diaspora's engagement in development, support the formation of new types of Diaspora organizations, and strengthen Diaspora accountability for Armenia's development progress.

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Annex. Interview Summary

A. Homeland visits and other drivers of initial engagement

The Nagorno-Karabakh conflict, the tragic event of the 1988 earthquake, and the emergence of the newly independent Armenia in 1991 created both an additional interest in exploring Armenia and a renewed sense of pan-Armenian solidarity. The sense of solidarity contributed positively to the expanded frequency of Diaspora visits, including tourism.

"I started going to Armenia after the earthquake [...] that's how I got really involved in Armenia, sort of an opportunity to begin to have some understanding and relationships with the people in Armenia [...] I now go to Armenia every three months."

For some of the interviewees, their first trip to Armenia was during the Soviet times and this memory was perceived as a trigger to stimulate their curiosity. They wondered: How will Armenia look after independence?

"[...] I first went there in 1981. [...] I wanted to get involved ever since all the changes in the early 90s. I have traveled to other Eastern European countries [...], but this thing of Armenian background, it's just sort of, uh..., something with, at least in the family which I grew up,... and this independence, uh, it's something we waited for a long time, so when it came, uh, I don't know, uh, it is a very exciting process to, uh..., be part of a whole transformation process."

"[...] I traveled there the first time in 1982: obviously Soviet Armenia and to me that in itself was very interesting, I got very connected in there [...] It is not real until you actually visit it, and when you actually see all the signs and all the people speaking, it becomes certain reality and ever since then I knew I wanted to do something to get involved in Armenia, even in those days when it was Soviet Armenia... I never dreamed in those days that the opportunity will come."

For other entrepreneurs their initial direct experience of Armenia was related to their executive/professional appointee role through either accepting international assignments or participation in official visits by government and community delegations to Armenia.

"[...] I went for the first time to Armenia with the official visit accompanying President Menem, [...] and there they signed an Argentine-Armenian health agreement [...], and after that we visited the Pediatric Hospital in Yerevan [...], where we have started some projects."

Historical considerations as well as a strong sense of Armenian identity of the interviewees have been the main triggers of their business engagement in Armenia. The rationale drawn by the participants speaks for itself when the question "Why Armenia and not another country?" is posed.

"[...] Since I was a little kid my father bought me history books, yeah, but it did not produce that tangible feeling until I actually went there (Armenia) [...] I felt sort of a sense of nation building, [...] We have been waiting for this for centuries and here is the opportunity to do something and as idealistically as it sounds it really comes out to that. [...] Here at least I know the people by now, I have a connection to them, I'd go more likely there than I'd go to India."

"[...] And this independence, uh, it's something we waited for a long time, so when it came, uh, I don't know, it is a very exciting process to, uh, be part of a whole transformation process."

For some of the respondents to invest in Armenia also represents a commitment to the legacy of their parents and enlarged families.

"[...] I decided to make businesses in Armenia because I believe this is a way to help Armenia. [...] My father died before seeing a free Armenia, he never imagined that Armenia would be independent that fast... How many thousands and millions of Armenians would have given their lives to see that. They did not see it. I have the luck to witness it, but I am an intermediate generation, neither a full Argentine nor a full Armenian, but enough Armenian. [...] This

“intermediacy” situation I possess makes me to do something for the memory of my parents. [...] If my father were alive, what he would have done? It is for sure he would have set a venture in Armenia or do some work over there.”

With respect to charity, we did not find intensive engagement in charitable activities in Armenia to be a common pattern among respondents. At the same time, it could not be said either that they are entirely disengaged from charity. The following comment is typical for the sample attitude to combining investment activities in Armenia with contributions to charities:

“[...] I think it is important to know that I do not favor donations. I have contributed and still contribute a lot with the church. These donations are ... aimed at the religious structure not because of strong religious feelings, but because I believe the church has supported, through centuries, the permanence of Armenianness and the unity of the Diaspora in absence of a State as an institution...”

In summary, we found that it is common to the respondents that they have established an individual engagement with Armenia by visiting the country. Homeland visits, especially when combined with a strong sense of Armenian identity, have clearly been a positive determinant for Diaspora mobilization toward investing and more general long-term engagement with Armenia’s development process.

B. Informational capabilities, awareness and role of the Government

Armenian Diaspora communities are known to be organized around four major institutions: church, political organizations, schools, and media. These institutions work as centers of gravity, and they help generate and support various Diaspora networks, regulate communities’ participation in various activities, and facilitate information dissemination. Individuals and families develop their community lives through participating in heavily extended extracurricular activities at schools, political meetings, church, cultural events organized by the congregation, as well as by listening to radio programs and reading Armenian press both in Armenian and/or in the local language. Thus, they are socialized into the specifically-Armenian cultural, intellectual, religious, and political environment that helps to preserve their ethnical identity.

During the interviews, respondents were asked how much they knew about other projects or business opportunities in Armenia, as well as about sources of this knowledge. These questions reveal a major deficiency of the existing information channels in the Diaspora. None of the interviewees exhibited the usefulness of existing information capabilities of the Diaspora as a source of information on business opportunities in Armenia, including information on positive experiences of Diaspora businessmen. Very few were able to quote examples of peer Diaspora members investing in Armenia and certainly no one demonstrated any use of existing Diaspora organizations and formal information resources in the process of exploring the mentioned business opportunities.

Word of mouth in the Diaspora, i.e., informal information sharing, has been only sporadically used as a tool to get informed about business opportunities and experiences in Armenia. The inefficiency of both formal and informal informational channels shows an underutilization of the existing Diaspora resources for dissemination and outreach.

Also the entrepreneurs were asked about their expectations regarding the policies of the Government of Armenia. Answers showed a certain level of concern for what is seen as incoherent and non-professional policies to both promote relevant local industries and attract foreign investment. The institutional reputation of the Government of Armenia is also of concern for Diaspora business people. In addition, the participants believe that the Government tends to underutilize their business and technological expertise.

“[...] The real issue is the perception that [...] there is no real effort made (by the Government) to create an environment that is favorable to business. Armenia should become “Armenia Inc”.

[...] I think Armenia should become the Singapore of the region, while the Government might need to develop the public sector as opposed to develop the private sector [...]

[...] The Government of Armenia is not a homogeneous synthesis of thought. There are some officials with a certain mentality and there are others with another one. [...] This clash of cultures is also at the core of the Government and it becomes evident when somebody in the Government says: "what XYZ service is this businessman going to privatize, if this XYZ service is the last thing we are interested in. Let him come but set a dairy farm". And I do not want to set a dairy farm! My specialty is this XYZ service and I do it very well. [...] That points to the very core of the question: freedom."

The participants strongly believe that Diaspora members could play a critical role in Armenia's economic development, including through setting new ways of operations in the still difficult business environment, by bringing in new business practices and role models. In this respect, they expressed a certain level of dissatisfaction about the existing level of professional and business contributions made from their fellows from the Diaspora.

[...] What most bothers me is to see the potential Armenia has, the potential Armenians from Diaspora have to help the country, and to witness that it does not get materialized"

[...] I think that's probably one of the things that disturbs me is that there is actually not more Diaspora Armenians doing something directly, not contributing to church or anything like that, but doing something to the country."

[...] What I have noticed is that those Diaspora members who have succeeded in their professional life, through a profession itself or through an economic success per se, are not contributing properly to the Armenian nation.[...] I do not share what other Armenians do in regards of making a donation and then leaving. I think one has to involve himself /herself, one has to invest [...] With an investment I do not know if I win or lose, but it is an investment and I do generate genuine sources of labor and I do contribute to a mentality change, which is so much needed. Through donations you don't change minds ..."

[...] Armenia's biggest threat [...] is our own inability, despite our tremendous wealth in the Diaspora, not to come to the rescue of the country from the economic standpoint [...] We should change our attitude, as a Diaspora we should say: this is a new country and yes, there are a lot of weak points [...], but this is it, the best we have, and if we are going to turn our backs to this little country, it is not going to survive 2050 [...]"

[...] Oh! The great deals Diaspora can do [...] They talk about it in a lot of symposiums and seminars [...] A lot of handkerchiefs wiping out tears, but there is usually no action, that's the tragedy [...]"

As follows from the interviews, successful Diaspora entrepreneurs should be more proactive in sharing their Armenian business experience within the Diaspora. Without this, the pace of changes to Armenia's business image among Diaspora members has been too slow. Despite the years of high economic growth and considerable government efforts to improve the country's investment climate, there is still insufficient trust in the government economic policy. The Diasporan independent media does not bring the adequate amount of positive economic news from Armenia and thus, the information gap between Armenian business reality and its much grimmer Diaspora perception remains widely open. It is up to the first movers themselves and other Diaspora business leaders to close the gap, including by being more enthusiastic in calling their peers to launch businesses in Armenia, promote collective investment projects, and expand efforts to strengthen public awareness in the Diaspora of the role of foreign investments for Armenia's future, as well as of the need for further improvements in the business environment in the country.

At the same time, our interviews also suggest that the Government of Armenia has to find a way to upgrade its communication tools and outreach practices. At the moment, it appears the Diaspora does not have access to timely and trustworthy information on Armenian

business development and economic policies.⁶ This lack of information represents an additional stumbling block for Diaspora mobilization. In this respect, the Internet offers a unique possibility to connect Armenian communities worldwide. Pan-Armenian internet-based informational network could be cost effective and may be developed quickly enough to address the existing needs. Box 3 provides a small example of internet-based tools used to spread positive news about living, working and starting a business in Armenia.

Box 3. Internet Chat on SME development in Armenia.

The text below is taken from the transcript of the Internet chat session, organized on March 29, 2002, and sponsored by Armenia's Ministry of Foreign Affairs. The participants included Diasporans who live and do business in Armenia and Diasporans living outside Armenia (Chat Session, 2002). The Armenia-based participants managed to articulate in their message regarding both their business operations and high quality of life in the country. The components of this positive message related to the financial success of their businesses, ability to provide locals with a source of productive income, improved personal work-life balance, etc.

Vazken	Hi everyone, is living in Armenia fun?
Menua_Nane	You bet!
Ponchig	Living in Armenia is the BEST!!!
Dolmama	All the time I am here I always wondered when and why we are not all here so please if you have any intention to give more meaning to your life don't let us stop you.
Menua_Nane	It is great to work and live in Armenia. I would not think of moving back for a second.
Vazken	Are all of you running profitable businesses in Armenia?
Ponchig	I think most of us are in successful operations.
Voske_Hats	Most businesses Diasporans run are successful in general.
Ara	Would you guys encourage me to think about moving?
Menua_Nane	We need some accountants here in Yerevan. Are you thinking of opening a business here in Armenia?

C. Role of Diaspora Professional Associations

We then theorized with the respondents about activities of Diaspora's professional associations and what their function should be. Professional associations are the forum for information dissemination, technical assistance, two way business networking, and exchange of professional experiences. Professionals are attracted to such organizations in their respective fields of expertise in order to share common professional concerns and interests.

"Professional associations are basically facilitators [...] and also protect investors from getting into problems."

"[...] It already exists for the IT industry [...], and it's very good because you learn about other companies, what kind of products they are doing and if you go there (to Armenia) for the first time and if you need contacts, you join the association."

"I belong to two professional associations. [...] I think both are very good associations, where professionals come together, and for no other reason it brought Armenian American lawyers and high tech professionals together, and (they) have a place to discuss issues that are relevant to each other business here in the US and in Armenia. [...] It creates a forum to discuss."

⁶ In this respect, the recent experience of US Embassy in Yerevan in broadening Diaspora outreach could be quite relevant. Diaspora created a pressure for strengthening accountability for how donor funding is spent by the Government of Armenia. This generated a new market for information about donor assistance programs in Armenia and more generally about Armenia's development. In response, the Embassy developed a pro-active outreach strategy (Sherinian_2005).

It is worth noting that in several interviews we had to clarify what we meant by Diaspora professional associations. The respondents used to confuse them with traditional associations like Compatriotic Associations, which are abundant in the Armenian Diaspora and deal with the issues of social, cultural and educational nature that help to preserve the core of the Armenian identity. Such confusion is not surprising since Armenian professional associations are in fact a rarity within the Armenian Diaspora and they do not fit well into the traditional role of Diaspora institutions as described above.

Talking to representatives of the few existing associations we observed that their core activities are quite pragmatic and directly linked with their field of expertise. They serve some needs of their immediate local community, but they are also rather inclined to be involved in Armenia's economic development. In this respect, professional associations are quite different from the traditional Diaspora organizations.

"[...] Professional Associations could have a strong role in almost be like a mentor, [...] either as advisors or maybe having seminars there or exposing students and teachers... to their industry needs. To do these things through a Professional Association it always adds credibility, it provides a forum, a way or a physical place to do it, and it immediately discloses information to members, so more people can benefit from the information. Associations can then participate in international forums, trade shows [...] and then you get exposed to different organizations, potential clients."

"[...] I think that as Armenians you bring a cultural element to the work (in Armenia), which helps you link to the people on ground easier [...] You are able to create the linkages that perhaps are not available or feasible for those who are not this way connected to the people [...] If we (association) had more resources, we could be key partners to development agencies [...], adding experience, connection [...]"

The primary objective of association activities in Armenia relate to the facilitation of development of their respective sectors in the country through utilization of collective expertise of their members. These activities include technical assistance to investors and local businesses that operate in these sectors, advice on educational curricula (including re-training) and on educational reforms in general, and the support to exchange and internship programs. The statutory objectives of the ArmenTech, Armenian Jewelers' Association, and Armenian-American Health Association of Greater Washington area appears to be illustrative of professional associations' role with respect to Armenia's development agenda (Box 4).

Box 4. Statutory objectives of the selected Armenian Diaspora professional associations

Armentech:

To encourage the successful development of high-tech and IT sectors in the Republic of Armenia with the intent of providing employment and improving the economy.

To support the efforts of providing the infrastructure, facilities, equipment, and competitive telecommunication services necessary to support the incubation and expansion of software, e-commerce, Internet, and other high-tech companies.

To assist in the development of professional training programs in software engineering, project management, application development, and IT services marketing.

To promote the education of high school and university students in Armenia, preparing them for careers in the high-tech and software industries.

Armenian Jewelers' Association (AJA):

To establish a worldwide Armenian Jewelry Network and develop the jewelry industry in Armenia.

To draw on its Armenian heritage and the diverse entrepreneurial and business strengths and experience of its members in order to increase communication and cooperation between Armenian jewelers.

To enhance the professional image, promote the interests and assist in the development and expansion throughout the world of the Armenian jewelry businesses.

Armenian-American Health Association of Greater Washington (AAHAGW):

The mission of the association is to facilitate the following activities in Armenia, Karabakh, and metropolitan D.C.:

- Provide and *facilitate* development of health care services.
- Educate and train *health* care providers and the general public.
- Provide biomedical and *technical* support.
- Assist in health-related research and development.

Source : www.amentech.org ; www.aja.org ; www.aahagw.org

Armentech is relatively a new association. Established in 2002, it had a membership of about 150 in early 2005, who had been heavily involved in setting the IT agenda for Armenia. Its broad support for the Master Strategy for Armenia's ICT industry⁷ is another confirmation that the focus of its operations is Armenia rather than the Diaspora.

Armentech, with the support from USAID and the World Bank, launched a high-tech web portal Silicon Armenia⁸, which was designed as an internet-based platform to support cooperation between Armenian IT businesses around the world. The portal was developed in cooperation with the local association of IT firms (UITE) and it hosts the profiles for about 100 Armenian IT companies, provides members with the information on jobs, training, and tender opportunities, as well as with the updates on sectoral and macroeconomic trends. The portal is seen as an important first step in the longer-term strategy aimed at promotion of Armenia as a modern economy that could successfully compete for high-tech FDI. Armentech has also been marketing the portal as a model for other Diaspora professional organizations to replicate in their respective sectors.

Likewise, the Armenian Jewelers' Association (AJA) fosters a worldwide awareness and development of the Armenian jewelry industry. In addition to the above mentioned organizations, several other professional associations of the Armenian Diaspora have become increasingly active recently, for instance the Armenian American Health Association of Greater Washington (AAHAGW), Armenia Technology Group (ATG), and the organization of Armenian Engineers and Scientists of America.

Formation of Diaspora professional associations appears to be consistent with the international trend. Globally, immigrant networks become an important source of shared information, contacts and trust that allow local producers (even rather small) in developing countries to participate in the global economy. In the modern economy, the scarce resource is often not money, but knowledge, specifically -- the ability to locate foreign partners quickly and to manage complex business relationships across cultural and linguistic boundaries. It is a special challenge in the high-tech sector, where product cycles are short. Diaspora networks could help to reduce transaction costs of cooperating over the long distance (Saxenian 1999, pp. 54-55).

The operations of professional associations – non-profit by nature and relatively small in the case of the Armenia Diaspora – are often constrained by a narrow funding base. The sustainability of their activities is of concern. However, because of the nature of their human capital, they seem to be the most appropriate institutions to facilitate knowledge transfer from the developed to developing countries and establish know-how partnerships. Association members are Diaspora practitioners who could conduct in a cost-efficient way new policy studies, disseminate best practices, as well as help to upgrade the educational process in the home country.

⁷ The Master Strategy was developed as a collaborative effort between the World Bank, USAID, Foundations, academic institutions, and private sector entities.

http://www.amentech.org/Downloads/Armenia_MasterStrategy_Final_Draft.doc

⁸ <http://www.siliconarmenia.com/index.jsp?sid=1&id=10000&pid=50>

“[...] We did a very extensive need assessments [...] based on our visits to the hospitals in Yerevan. [...] We called people who were involved in health care issues and then based on their recommendations we looked at certain areas [...] Our work is pro-bono [...]”

Overall, as the analysis sponsored by the French Development Ministry suggests, activities of Diaspora professional organizations have an element of public good, and as such they deserve public support in both developing (home) and developed (host) countries. Without such support, Diaspora professional initiatives are likely to remain sporadic with limited development results (Scientific Diasporas 2003).

Turning professional associations into mainstream Armenian Diaspora organizations could be an important medium-term objective. This may require a considerable redistribution of resources within the Diaspora, including charitable funds, from more traditional institutions and causes. However, such a shift appears to be fully justifiable on the grounds of recent changes in both the Diaspora itself (where due to the generational shift there are new demands for community institutions) and Armenia (where needs have shifted from humanitarian relief to development assistance).

D. Collective Diaspora projects

A peculiar feature of Diaspora investments in Armenia so far has been the relatively small size of individual investment projects. At the same time, the general analysis of Armenia's development challenges (World Bank 2002) points to a demand for collective, umbrella-type Diaspora projects that may pool together a larger amount of funds and expertise from a number of Diaspora sponsors. The strategic advantages of such collective initiatives are several and could be summarized as follows:

- Consolidation of many small (individually non-investable) contributions could trigger a broader transformation of the inflow of humanitarian assistance into real sector investments. This would also help to diversify risks for investors.
- Monitoring performance of individual investments, which are sponsored by these collective projects, would make these collective projects a source of the first-hand knowledge of business realities and help to monitor patterns of economic liberalization in the country. At the same time, project visibility would provide its sponsors with additional opportunities to lobby for improvements in the investment climate.
- Because of their collective nature, it would be easier for such projects to get the political backing of the broader Diaspora community. Such grass root support could be an important additional guarantee against various project implementation risks in Armenia (e.g., those associated with corruption and deficiencies of the investment climate).

According to our respondents, even Diaspora first movers know little about collective Armenia-targeted development projects/initiatives discussed or sponsored by Diaspora representatives. This reflects, first, that only a limited number of such proposals have been sponsored by the Diaspora so far, and, second, it points once again to the weak informational capabilities of the Diaspora. The last Diaspora conference held in May 2002 in Yerevan produced a list of seven collective project proposals, out of which only one, a regional health center, differs from the traditional for the Diaspora type of projects focused on cultural and historical issues.

Additionally, the respondents have shown some hesitation to participate in collective Diaspora projects. This is also evidenced, for instance, from the failure in 2002-03 to raise adequate funding for the Armenia investment fund, sponsored by the International Financial Corporation (IFC).

“[...] What I have learned about the attitudes of the Diaspora [...], Armenians have a serious problem [...], they like to control what happens with their money, which is fairly reasonable. However, when it comes to investing, most do not know how to invest in Armenia and the approach by which each individual makes its own investment usually backfires because some investments will make money and [...] some others by definition are going to be losers [...]. That's why the idea of a portfolio approach, where people come together and invest together, so

that they diversify the risk, makes a great deal of sense, but they do not understand that [...]. It's a combination of not quite understanding the concept of a fund, as well as prejudices towards [...] giving money to someone particularly [...], who is not recognized, has not the household brand name [...] even though the International Financial Corporation is on, supporting the fund [...]"

Following the insight of Gillespie and Adrianova (2004), we dare to speculate on the reluctance to invest in collective projects for Armenia reconstruction. Perhaps it may reflect actual preferences of Diaspora individuals to achieve quick but tangible goals through charitable donations, and avoid discomfort associated with both potential longer- term risks of future business failure (which is considered damaging for a sponsor reputation) and lack of direct current control over the invested funds. For individuals with such an incentive framework, acting in its "donor" role is just easier and more comfortable than being an "investor" in a collective business development venture. Unfortunately, even large charitable donations do not contribute to Armenia's economic long- term agenda in a sustainable fashion.

"[...] Money from the Lincy Foundation [...] is very significant, but it is a one time shot, it [...] is not going to act as a multiplier as effectively as if that money were to be spent in the private sector [...]"