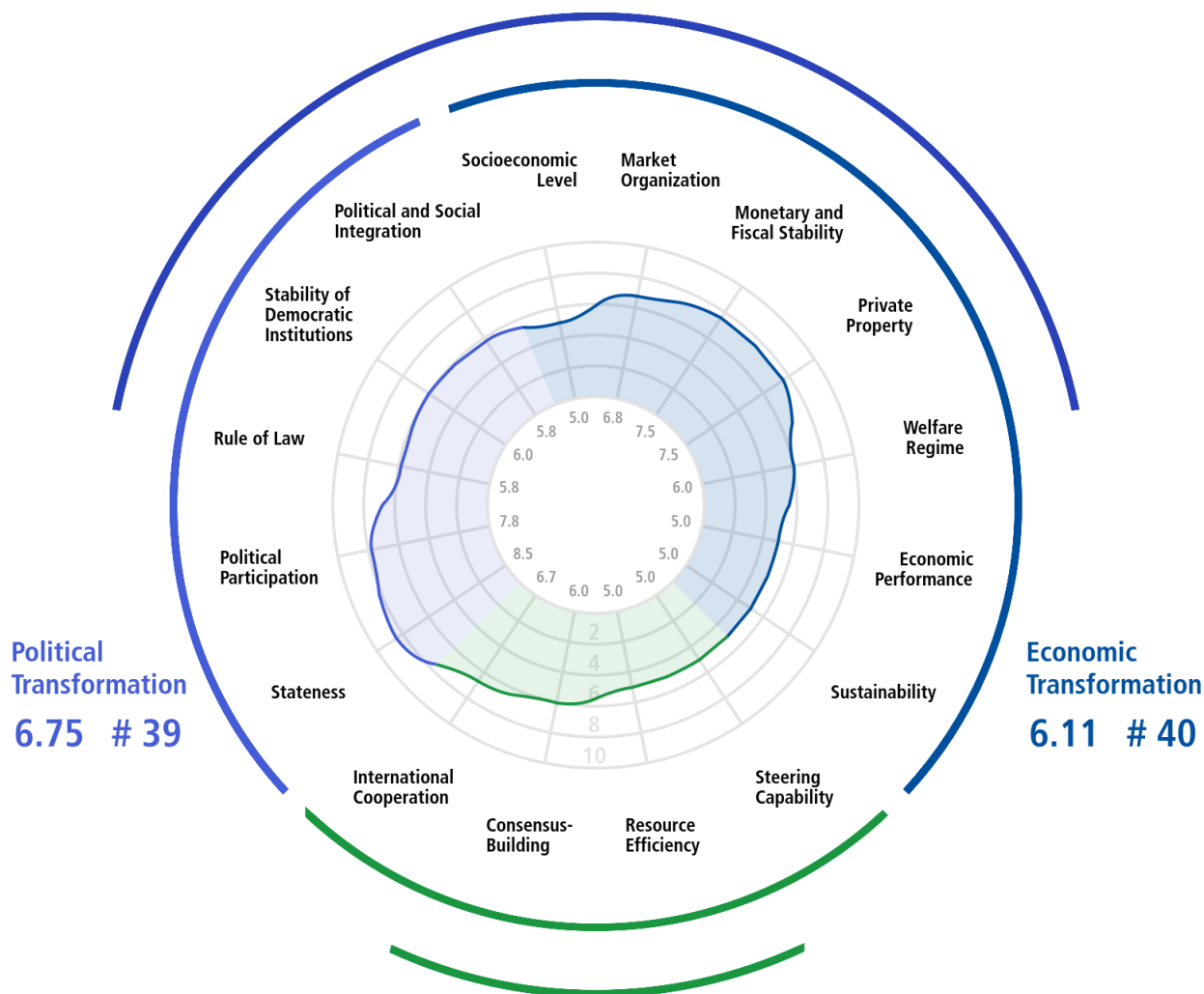


Armenia

Status Index

6.43 # 37

on 1-10 scale out of 137



Political Transformation
6.75 # 39

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6.11 # 40

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on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	3.0	HDI	0.776	GDP p.c., PPP \$	13284
Pop. growth ¹	% p.a.	0.2	HDI rank of 189	81	Gini Index	29.9
Life expectancy	years	75.1	UN Education Index	0.740	Poverty ³	% 9.8
Urban population	%	63.3	Gender inequality ²	0.245	Aid per capita \$	141.9

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The crucial event in the reporting period was undoubtedly Armenia's war with Azerbaijan. On September 27, 2020 Azerbaijan started its war on Nagorno-Karabakh, a long-disputed region called Artsakh in Armenia, which lasted for 44 days. It ended on November 10, 2020, when Russia facilitated a cease-fire, apparently just after the Azerbaijani forces had captured most of the territories occupied by Armenia in the previous war in the early 1990s, plus a major chunk of Nagorno-Karabakh proper.

The Nagorno-Karabakh war caused severe political interruptions and instability which came on top of the COVID-19 pandemic. This has seriously tested Armenia's political, economic, and social resilience. It also brought Armenia's reform movement to a halt – not only in terms of restricting civil liberties, which was the case during the pandemic and even more so during the war.

No national elections took place in Armenia in 2019 and 2020. A number of local elections held in 2019 were mostly competitive, according to the reports provided by local election observation missions. The local elections to be held in 2020 and a planned referendum did not take place due to the COVID-19-related state of emergency. In September 2019, the My Step ruling party began to work in parliament on an amendment of the Election Code and the Law on Parties, which had been among the top electoral promises of Prime Minister Pashinyan.

After the 2018 revolution, changes have occurred in almost all sectors of the state and society. However, these reforms have been patchy and have had no serious impact. Moreover, the large-scale institutional changes envisaged by the revolutionary government have not been realized. Most noticeable was an increase in the minimum wage, an increase in pensions for certain groups, and improved conditions in the armed forces.

A major election promise of the Pashinyan government concerned fighting corruption, which was widespread under the previous regime. Criminal cases followed, which targeted corruption by

former government officials and their relatives, parliamentarians, and in a few instances, by members of the judiciary and their relatives, with cases ranging from a few thousand to millions of dollars. Many of those cases are still ongoing, and additional cases have been reported regularly. The government also launched corruption investigations into a few current government officials.

The most prominent of those prosecuted has been the previous president, Robert Kocharyan, who was arrested many times after being charged in 2018 with “overthrowing the constitutional order” (e.g., in the case of the violent dispersal of the March 2008 protests against obviously fraudulent elections, resulting in ten deaths) and accepting bribes.

Little progress was observed in the protection of human rights. The restrictions brought by the COVID-19 state of emergency (March 2020), and later by martial law, according to the Committee to Protect Freedom of Expression, led to disproportionate or unfounded restrictions on media operations in the country (in addition to a ban on public assemblies and public gatherings which were limited to a maximum of five persons). On October 8, 2020, the Armenian authorities decided to amend the martial law declared on September 27, 2020 and brought forward a legislative proposal on insult and defamation that aimed to increase fines for publishing insults and defamatory comments in the media and social networks.

The Armenian economy has been hit hard both by the COVID-19 pandemic and the war in Nagorno-Karabakh. Certainly, the authorities during the first wave responded promptly with health care and anti-crisis measures to limit the pandemic’s impact, while protecting vulnerable groups and safeguarding sustainability, as well as macroeconomic and financial stability. But during the war – and hence at the onset of the second wave of the pandemic – attention shifted to this second crisis.

Despite government efforts, the economic impact of the pandemic has been severe: by mid-2020, the economy had already contracted by 5.7%, exacerbating structural weaknesses (and subsequently further compounded by the war). Enduring economic challenges include low agricultural yields, dependence on Russia for exports and remittances, rising inflation, and high oil prices. Other significant challenges include the geographic isolation of the country, lack of infrastructure and a highly dollarized economy. In light of the political turmoil after the war in Nagorno-Karabakh, the prospects of addressing these most pressing challenges look bleak.

History and Characteristics of Transformation

The breakup of the Soviet Union, coupled with the war in Nagorno-Karabakh, created considerable economic and social hardships for the new republic that emerged in 1991. The country's political transformation by and large stalled at the beginning 1996: since then, presidential and parliamentary elections have been disputed by observers and the opposition, and many were accompanied by public protests.

In 1998, Armenia's first president, Levon Ter-Petrosyan, resigned amid disagreements with the country's other leaders over the Armenian strategy toward resolution of the Nagorno-Karabakh conflict. Robert Kocharyan from the hard-line "Karabakh faction" replaced Ter-Petrosyan as the country's president.

A terrorist attack on parliament on October 27, 1999, left the country's key leaders, Prime Minister Vazgen Sargsyan and Speaker of Parliament Karen Demirchyan, along with a number of deputies dead and the country devastated – an event that many believe changed the country's course of development.

In the early 2000s, a boom in the construction sector triggered economic growth which came to an end with the 2008 world economic crisis. The borders with Turkey and Azerbaijan remain closed until today as a result of the Nagorno-Karabakh conflict. In a series of "equity for debt" swaps, Armenia gave away a number of strategic assets to Russia. Over time, Moscow's growing grip on the country's energy sector, the railroads and telecommunications resulted in Armenia's over-reliance on Russia not only in security, but also in economic terms which finally led Armenia to enter the Eurasian Economic Union.

Armenia's democratic transition has been stalled by a deterioration in human rights and democratic credentials, while endemic corruption and nepotism have been a hindrance to the development of an efficient public administration sector. The merger of business and politics resulted in the concentration of too much power in the hands of a few and the domination of oligarchs and monopolies in the economy.

Armenia saw its biggest political crisis in 2008, when 10 people died during a government crackdown against protests disputing the results of the February 2008 presidential elections. Prosecution of opposition politicians ensued, resulting in over 100 political prisoners in the country.

Notwithstanding the constrained political space, a vibrant civil society evolved over time. In 2010, in reaction to the devastation of the political opposition, civic activist groups started to emerge. Focusing on a wide variety of issues from environmental protection to transport and electricity price hikes, activists managed to achieve relative success time they took to the streets.

The 2015 constitutional changes stipulated a transition from a semi-presidential to a parliamentary form of governance, obviously in an attempt by the ruling party and its leader Serzh Sargsyan to consolidate power and continue governing. The constitutional amendments also created an opportunity for an existing one-party legislature from one center to rule the executive and judiciary. The new constitution fixed guarantees for a parliamentary majority by bringing in a ranking and a bonus system for the distribution of mandates. It will take some time for the acting government to rectify this in a new constitution or constitutional amendments.

Sargsyan's move to the prime minister's office after his second presidential term ended in April 2018 backfired. Led by opposition leader Nikol Pashinyan, massive protests that were soon dubbed the Velvet Revolution deposed Sargsyan and his coalition government and introduced a new revolutionary government.

After the 2018 Velvet Revolution the government opened investigations that revealed systemic corruption encompassing most areas of public and private life. The government launched numerous criminal cases of alleged corruption involving sums up to millions of U.S. dollars against former government officials and their relatives, parliamentarians, and in a few instances, members of the judiciary and their relatives.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

A serious protest occurred on November 10, 2020, when protesters stormed Armenian government and parliament buildings in Yerevan, and severely beat up the speaker of the parliament over the cease-fire deal of November 10, 2020, between Armenia, Azerbaijan and Russia. The Armenian National Security Service declared that it had identified more than 70 organizers and participants of the riots (arresting 15 of them) and that some opposition politicians played an “active role” in the violence.

The Armenian government has lost much credibility and authority over this most recent war with Azerbaijan, in particular due to its allegedly chaotic policy. Numerous political and civil society actors have demanded the resignation of Prime Minister Nikol Pashinyan. He was unable to visit major cities in the south of the country after residents of the Syunik region blocked roads, including the Yerevan-Goris highway, and did not let the prime minister pass.

Numerous authorities, among them the Katholikos of the Armenian Apostolic Church and Armenian President Armen Sarkissyan, called for the resignation of the prime minister and for snap parliamentary elections, in order to form a new government which could manage the deepening crisis in the country.

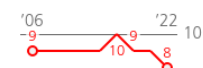
Some Armenian opposition parties created a joint platform, the Armenian Salvation Movement, and nominated former Prime Minister Vazgen Manukyan as a candidate to head a transition government before snap elections.

Because of the cease-fire, Armenia and Artsakh (Nagorno-Karabakh) not only lost some 30% of Karabakh territory, but also surrounding territory occupied since the end of the 1994 war with Azerbaijan. In the postwar reality, demarcation and delimitation of the border with Azerbaijan remains problematic. The Armenian authorities are neither transparent nor accountable for this process, which as part of the November 10, 2020 cease-fire, is to be delivered by the warring parties. In January

Question
Score

Monopoly on the
use of force

8



1

2021, the Armenian Human Rights ombudsman Arman Tatoyan shared the concern that the demarcation process has been violating the rights of Armenian citizens, as well as infringing on the country's internationally recognized borders. There are serious conflicts between the local and central governments. As a result of the new demarcation line, the road between the Armenian cities of Goris and Kapan in the Syunik region crosses Azerbaijani territory in several places. Moreover, part of the airport of the city of Kapan is now located in the territory of Azerbaijan.

The large majority of the population accepts the nation-state as legitimate. Access to citizenship and naturalization is not denied to particular groups on the basis of race, ethnicity, national origin, religion, gender or for political reasons.

According to the 2020 report on the implementation of the Council of Europe Framework Convention for the Protection of National Minorities, all representatives of national minorities residing in Armenia who are citizens of the Republic of Armenia, both as individuals and as ethnic communities, have rights as national minorities. A decision issued by the prime minister on establishing a Council of National Minorities and approving the composition of the Council came into force on May 3, 2019.

According to the regional Jam-News, ethnic minorities seldom report when they are discriminated against. However, there were a few incidents when they vocally expressed their discontent. For example, when some representatives of the Yazidi community complained about their children being forced to pray at school. The Yazidis suggested that the history of the Armenian Church should be made an optional subject in education, so as to not infringe upon the rights of non-Christian students.

Some ultra-conservative groups in the country campaign for even closer cooperation between Armenia and Russia, namely by establishing a supranational union with Russia, the latter being the security guarantor of Armenia.

Armenia is a secular country. Religious dogmas have no noteworthy influence on the legal order or political institutions. However, the Christian faith plays a major role in the history and identification of the Armenian people and the absolute majority of the population of Armenia belongs to the Armenian Apostolic Church. The Armenian Apostolic Church has the legal status of the national church and enjoys some privileges not available to other religious groups.

However, during the postwar domestic crisis, the Katholikos of the Armenian Apostolic Church joined the chorus of those demanding the resignation of the prime minister and early parliamentary elections (which after an agreement with the opposition will be held in mid-2021).

State identity

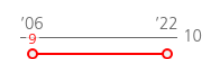
10



1

No interference of religious dogmas

9



1

In June 2020, the Armenian government declared that Armenia had joined the International Religious Freedom Alliance (established in 2020), which includes 29 countries.

The Yazidi religious minority opened its first ever houses of worship in Armenia in October 2019. However, the wider public and official attitudes toward religious minorities and non-believers remain problematic.

The administrative structures of the state are generally competent and provide most basic public services throughout the country, but their operation is to some extent deficient.

Despite some progress, clientelism and patronage still pose serious problems within the administrative structure, which is compounded by petty corruption. There are even practices of a new clientelism involving groups close to the government. According to the Transparency International Anti-Corruption Center, the Armenian authorities deferred implementing reforms and have failed to install adequate systems in various areas, thus wasting a large amount of public trust gained through the revolution and the subsequent election victory.

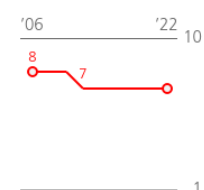
The COVID-19 pandemic has had a serious impact on Armenia. Combined with the war lost against Azerbaijan, the pandemic has brought challenges that significantly slowed down the progress of democracy and the fight against corruption. The government introduced programs to address the social and economic impact of the pandemic on individuals and small businesses. In July 2020, the government introduced amendments by which the management of all medical facilities in Armenia was to be directly supervised by the Ministry of Health, regardless of their affiliation and ownership, under the Emergency Situation related to the COVID-19 pandemic. In August 2020, the Armenian Ministry of Health announced that the first morgue in Armenia designated for autopsies of cases of highly dangerous infections, in accordance with international standards, had been fully renovated and put into operation.

2 | Political Participation

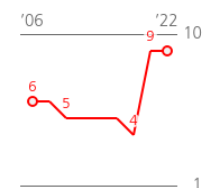
No national elections were held in Armenia in 2019 and 2020. The 2019 local elections in 26 municipalities were mostly competitive based on the reports provided by local election observation missions.

The last general election in 2018 was the first free and fair election in Armenia since the early 1990s, according to local and international election observers. It resulted in an overwhelming victory for the My Step Alliance of Prime Minister Pashinyan. The registration procedures for voters, candidates and parties were transparent and fair,

Basic
administration
7



Free and fair
elections
9



the media had good access, and the electoral management body proved to be effective and impartial.

The local elections to be held in 2020 and a planned referendum did not take place due to the COVID-19 pandemic-induced state of emergency.

In September 2019, the My Step ruling bloc in parliament started to work on an amendment to the Election Code and the Law on Parties which had been among the top electoral promises of Prime Minister Pashinyan. Having formed a parliamentary working group, the bill remains under discussion and the expected date for the parliamentary vote is May 2021, shortly ahead of the agreed-upon snap elections in March 2021.

Due to the loss of authority caused by the lost war with Azerbaijan, the democratically elected political representatives are no longer able to govern. Prime Minister Pashinyan has been badly weakened by the loss in the war, and his political standing appears to be constantly diminishing. The ruling party is now fighting for its political survival and appears to be unable to engineer any solutions to overcome the current political crisis.

For example, after the war on Nagorno-Karabakh, several community heads from the bordering communities with Azerbaijan called for the resignation of Prime Minister Pashinyan, culminating in a certain degree of tension between these communities and the central authorities.

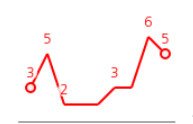
Other problems continue to be posed by wealthy businessmen who are aligned with the former ruling Republican Party government and can still exert undue influence over policymaking (for instance through their media holdings). However, they do not hold true veto power, as they have not been able to completely undermine or damage established democratic procedures.

Another case in point is the rule of courts, as exemplified by the court case of the second president of Armenia, Robert Kocharyan, which is still ongoing. Kocharyan is accused of abuse of power in a case dating back to March 1, 2008. The charges were brought under Article 300.1 of the Criminal Code (Overthrow of the Constitutional Order). There is a degree of public dissatisfaction that the court has not yet convicted and jailed Kocharyan. In general, courts continue to work in the interest of the previous government, despite popular demand for their reform. This significantly hinders Armenia's democratization process.

Effective power to govern

5

'06 '22 10



The Armenian constitution guarantees freedom of association and assembly. Independent civic and political groups should be able to operate free from unwarranted state intrusion or interference in their affairs.

A number of instances of police interference with assemblies were observed in 2019. The CSO Meter Armenia Report 2020 concludes that there is a negative dynamic in this area. According to the Helsinki Committee of Armenia, the police demonstrated an inconsistent approach with regard to the interpretation of the law, as some demonstrations were left to continue with little interference, while others were forcefully dispersed.

On April 15, 2020, the Armenian parliament adopted amendments to the Criminal Code to criminalize public calls to - and public justification of - violence. According to the amendments, publicly calling for violence, threatening anyone's life or health, and publicly justifying or inciting such violence, will be subject to penalties, from fines up to imprisonment.

In March 2020, the Armenian government declared a state of emergency, introducing a range of limitations for Armenian citizens in an effort to contain the COVID-19 pandemic. The measures included a ban on public assemblies, a limit on public gatherings of a maximum of five persons. There have been several incidents of spontaneous assemblies, which are frequently dispersed by the police.

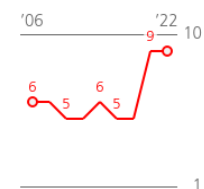
The constitution of Armenia guarantees freedom of expression and there is freedom of information legislation in place. In principle, the structure of the media system provides for a plurality of opinions. Yet in Armenia's dynamic environment, the media have been a vital tool in the hands of political parties. The public broadcaster, Public TV, adheres to the ruling party. The majority of commercial media, however, are still controlled by the opposition. Independent media remain small-scale, relying on grants and occasional advertisements for support. In general, editorial independence from the influence of owners is almost nonexistent.

Fake news is a growing problem throughout the country, manipulating news content. In April 2019, Prime Minister Pashinyan therefore ordered the National Security Service, Armenia's intelligence agency, to crack down on social media users who spread "fake news" about the government. This move was heavily criticized by the opposition parties and the country's human rights ombudsman as a threat to the freedom of expression. In April 2019, the National Security Service also arrested an unnamed social media user who ran a Facebook page that criticized Prime Minister Pashinyan, accusing him of inciting ethnic, racial, or religious hatred.

A group of members of parliament from the ruling party introduced draft amendments to ban the media from publishing information based on anonymous sources. In this context, an anonymous source would include - according to the draft amendment - domains registered on the internet, the hosting website, the account of the website or

Association / assembly rights

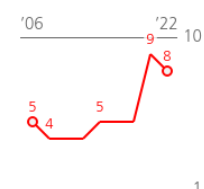
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1

Freedom of expression

8



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application, or the channel whose owner identification information is hidden from the reader. Local media experts are concerned and consider this to be a human rights violation. The draft amendment also proposes to make media financing more transparent, obliging media outlets to publish a financial report every year.

According to the Committee to Protect Freedom of Expression, the restrictions implemented under the COVID-19 pandemic state of emergency, and later by martial law, led to disproportionate or unfounded restrictions of media operations in the country. On October 8, 2020, the restrictions on the freedom of expression were extended by the Armenian government to prohibit statements (including publications and speeches) criticizing or refuting the actions of the government, local self-government bodies and officials under the framework of the martial law and ensuring state security. Questioning the effectiveness of those actions or depreciating them in any way was also prohibited. Any propaganda that could be perceived to threaten the defense capacity and security of Armenia and Nagorno-Karabakh was also prohibited.

On October 8, 2020, the Armenian authorities decided to amend the martial law declared on September 27, 2020 and brought forward a legislative proposal on insult and defamation that aimed to increase fines for publishing insults and defamatory comments in the media and social networks. The deputy speaker of the National Assembly, Alen Simonyan, proposed the bill to amend the civil code. Ignoring strong objections from press freedom groups, the Armenian parliament approved the proposal in February 2021 in its first reading, resulting in a fivefold increase of the maximum legal fines set for defamation: media outlets and individuals convicted of “slander” could be fined as much as AMD 10 million (\$19,200) while those making offensive claims could face a maximum fine of up to AMD 5 million (\$9,600).

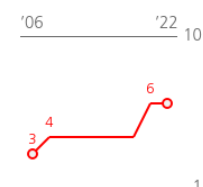
3 | Rule of Law

The constitutional amendments of 2015, which were adopted through a referendum in the interest of then-President Sargsyan, who sought to hold on to power after the expiration of his term, in effect provided the opportunity to establish a parliament dominated by one party as the decisive center to rule the executive and judiciary. The new constitution ensured that a parliamentary majority could be formed, privileging the strongest party through a bonus system.

Immediately after coming to power in the spring of 2018, Prime Minister Pashinyan identified judicial reform as one of his government’s key priorities. The court system was effectively the only branch of government not controlled by Pashinyan allies, and the prime minister accused the country’s judges of being loyal to the former regime. The government has tried a variety of methods to remove long-term incumbent judges from the country’s top court but has been stymied at every turn.

Separation of powers

6



In 2020, a working group was established to work toward a new constitution. A constitutional referendum is planned to be held in Armenia in the summer of 2021, as announced by Prime Minister Pashinyan. It was originally scheduled for April 5, 2020, but was postponed as a result of the COVID-19 pandemic.

The separation of the three powers (legislation, executive and judiciary) has become a separation of power along political party lines. The executive and legislature are dominated by the ruling government, while the judiciary – controlled by the opposition – does not enjoy public trust. In the wake of the war with Azerbaijan, however, the president's power has also lost public's trust. Hence, while checks and balances are not well regulated by the constitution, in practice they are even worse.

In Armenia, the constitution provides for an independent judiciary. However, lack of judicial accountability and independence has proven to be a hindrance to democratic and economic development and was one of the main reasons behind the revolution of April 2018. Judicial reform is not unfolding in the way it was expected to by the public.

There is a general consensus that the courts are still somehow devoted to the previous political regime, and that they suffer as much from lack of independence as from ongoing petty corruption. According to the U.S. Department of State Human Rights Report 2019, although citizens in Armenia have access to courts to file lawsuits seeking damages for alleged human rights violations, the courts are widely perceived as corrupt.

Citizens also have the opportunity to challenge the constitutionality of laws and legal acts that have violated their fundamental rights and freedoms in the Constitutional Court. According to lawyers, lower courts have not adhered to precedents set by the Court of Cassation, the European Convention on Human Rights (ECHR), and the Constitutional Court.

The year 2020 saw signs of an intensified polarization of the political fights for judicial reform and reform of the court system. In May 2020, parliament approved constitutional changes which would have allowed the immediate dismissal of three of the nine members of the country's Constitutional Court. The amendments drafted by the ruling My Step bloc also required the court to elect a new chairman. However, the amendments would mean that Hrayr Tovmasyan, the court's then-chairman, who had been at loggerheads with the government throughout 2019, would not necessarily have had to resign from the court altogether.

Tovmasyan and six other judges had been under strong government pressure to step down, with Prime Minister Nikol Pashinyan accusing them of maintaining close ties to the country's former government and impeding judicial reforms. Tovmasyan and opposition figures dismissed these claims, claiming that Pashinyan were simply seeking to gain control over the Constitutional Court. Parliament called for Hrayr

Independent
judiciary

5

'06 '22 10



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Tovmasyan to voluntarily step down, then law-enforcement agencies opened criminal cases against him. Parliament elected a new judge, Pashinyan ally Vahe Grigoryan, to the court, and tried to install him as chairman in a technical maneuver which was criticized by the Council of Europe's Venice Commission. As a result, the government finally backed down.

Finally, on June 22, 2020, parliament held an emergency session to pass a bill removing three judges who had served more than 12 years, without a referendum. The same bill demoted Tovmasyan but kept him on the court. The three judges appealed to the European Court of Human Rights, but that court has not yet issued a ruling.

After the May 2018 Velvet Revolution, the new government opened numerous investigations that revealed systemic corruption encompassing most areas of public and private life. Criminal cases followed, which targeted corruption by former government officials and their relatives, parliamentarians, and in a few instances, by members of the judiciary and their relatives, with cases ranging from a few thousand to millions of dollars. Many of those cases are still ongoing, with additional cases being reported regularly. The government also launched such cases against a number of current government officials. Although in most cases defendants pointed to the allegedly political nature of their prosecution, some of them voluntarily returned illicit money.

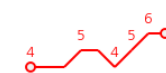
In June 2020, Yerevan's Court of General Jurisdiction sustained a motion, filed by the National Security Service (NSS), to arrest Prosperous Armenia party leader Gagik Tsarukyan on vote-buying and bribery charges related to former elections. Tsarukyan has been charged for bribing voters, receiving bribes, violating the ban on charity during elections and obstructing the exercise of the voter's free will. According to the NSS, the violation was revealed during the investigation of another criminal case. On June 16, 2020, Armenia's parliament decided to deprive Gagik Tsarukyan of his parliamentary immunity.

Amnesty International highlighted that former President Robert Kocharyan was arrested many times after being charged in 2018 with "overthrowing the constitutional order" and accepting bribes. The prosecution argued that the former president had been responsible for the violent dispersal of the March 2008 protests against the obviously fraudulent elections, resulting in ten deaths. Kocharyan denounced the charges as unfounded and politically motivated, and in turn accused the government of exerting undue pressure on the judiciary. The court released Kocharyan on bail and the process is still ongoing. Other former high-level government officials have also faced prosecution in connection with the violent dispersal of the March 2008 protests and other alleged instances of abuses of power; proceedings are still ongoing in these cases too.

Prosecution of
office abuse

6

'06 '22 10



1

Having secured a parliamentary majority, the government embarked on an ambitious reform agenda, including tackling corruption and reforming the economic and justice sectors. However, investigations into past violence and excessive use of force by law enforcement remain limited. There has thus been little impact on levels of violence and discrimination based on sexual orientation and gender identity, discrimination against and segregation of people with disabilities, and domestic violence.

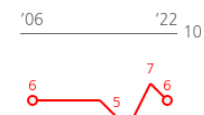
The constitution guarantees equal rights to women and men. After some lapses, the government recently drafted the updated Gender Equality Strategy 2019 – 2023 which articulates its priorities and policies to make progress in gender equality in a diverse range of sectors. However, violence against women still exists, with 8% of women in Armenia experiencing physical or sexual violence from their partner. Many women do not report domestic violence, so the actual incidence may be much higher. The government introduced domestic violence legislation, but it requires further amendments to meet international standards for access to justice and support services for women. In most cases, the authorities do not protect women and child survivors of domestic violence, jeopardizing their lives and well-being, as Human Rights Watch assessed the situation in 2020.

Lesbian, gay, bisexual, and transgender people frequently face harassment, discrimination and violence. The criminal code does not recognize homophobia and transphobia as aggravating criminal circumstances. Discussions around the ratification of the Istanbul Convention descended into hateful and derogatory statements being made by some officials that were directed against the LGBTQ+ community, suggesting that the convention had a hidden agenda of legitimizing same-sex marriage.

Local organizations that monitor the Human Rights situation in the country express concerns that investigations of alleged use of violence or torture by staff members of law-enforcement agencies still remain ineffective. Even if the acts of violence against individuals have been registered, criminal cases are often suspended on weak grounds.

Civil rights

6



1

4 | Stability of Democratic Institutions

Prime Minister Pashinyan, in his speech at the Parliamentary Assembly of the Council of Europe in 2019, stated that the development of democratic institutions, the establishment of an independent judiciary and the strengthening of anti-corruption agencies are the main areas in which Armenia needed support from the Council of Europe. The 2019 - 2023 Strategy for Judicial and Legal Reforms recommended that parliament needed to become more of a multiparty legislative body. However, little progress has been achieved in this respect.

Armenia's political system has not been decentralized as announced, hence local governments are still very limited in their autonomy. The centralized structure of governance in Armenia, plus limited local revenues, leave the country's provinces and municipalities dependent on budget allocations from the central government. A Community of Practicing Public Integrity and Ethics in Local Governance in Armenia was established in 2020 which acts as a coordinating body for the localization of national anti-corruption policies and their implementation by local authorities in Armenia.

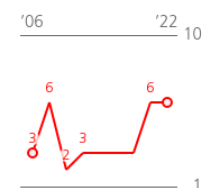
Several experts point out that Armenia's constitution does not guarantee the stability of democratic institutions, and it does not provide for mechanisms for checks-and-balances, and that the situation on the ground is even worse.

Prior to the Velvet Revolution in spring 2018, the hybrid regime existing in Armenia was rhetorically committed to democratic institutions, while in practice single-handedly controlling all those institutions. The revolution swept out this regime and installed a new parliament (and subsequently a new government) through free and fair elections held in December 2018. The success of the revolution set a crucial precedent in Armenia: for the first time in many years there was the widespread perception that power belongs to the people.

However, in the wake of the defeat in the war on Nagorno-Karabakh, Armenian politics once again became deeply polarized. The deep divide between political blocs, which had been temporarily superseded by the broad-based revolutionary mood in the country, has given rise to intolerance that transforms the public discourse from a constructive arena for deliberations on political solutions of urgent problems into a rhetorical fistfight. Parliamentary elections are scheduled for mid-2021. Commitment to – and hence stability of – democracy, notably by major parts of the opposition, is at stake.

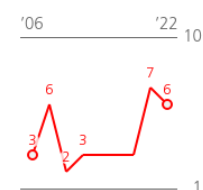
Performance of democratic institutions

6



Commitment to democratic institutions

6



5 | Political and Social Integration

Political parties in Armenia remain a one-person show constructed around a single figure, based on their particular interests. Policies and ideology do not play any tangible role. The political parties in Armenia are not socially rooted, with few exceptions, and are not organizationally sound. Clientelism remains rampant, with all its negative consequences. The number of political parties in the country is growing, but many fake parties can be observed, serving only the narrow interest of individual political figures.

Parties rarely feature women candidates in their campaigns; women only occasionally campaign on their own and rarely appear as speakers in rallies. Some women candidates have been a target of disparaging rhetoric because of their gender.

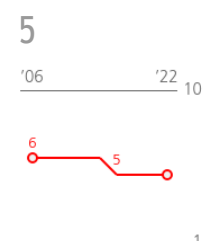
An amended Law on Political Parties came into force in January 2021. According to its authors, the main goal of the changes was to have a healthier political environment and to create a system in which parties are more accountable and transparent as well as less unprincipled and egocentric. The adoption of the package is planned to institutionalize political parties and cultivate a multiparty system to encourage ideological pluralism. The package also planned to enhance transparency of party financing, increase accountability, improve tools for public control over party funds and reduce corruption.

However, there is little evidence of the impact of the reforms. Although the last parliamentary elections in 2018 were free, fair and competitive, competition was still between individuals rather than political programs. The election campaign was marked by a lack of ideological content and a poverty of political culture.

The coalition parties of the previous hybrid regime, the RPA and ARFD, both failed to win seats in parliament. Apart from Pashinyan's My Step Alliance, which gained an overwhelming majority, two other parties, Prosperous Armenia – widely believed to be masterminded by former President Kocharyan – and Bright Armenia are in parliament. However, once again, in the runup to the early parliamentary elections, scheduled for June 2021, major realignments have taken place.

Traditionally, Armenian political parties have been personalistic and clientelistic in nature and have lacked policy platforms. This has led to a decline in public trust, resulting in the emergence of vibrant civic activist groups that ultimately engineered the revolution of 2018.

Party system



According to the Ministry of Justice, Armenia had more than 4,000 registered public organizations at the end of 2020. Yet the European Union estimated that only 15% to 20% of them were truly active.

Financial sustainability remains one of the biggest challenges for many organizations, and only a few have regular sources of income other than from foreign donors. A standardized financial reporting form for NGOs was introduced by the State Revenue Committee in March 2019.

In general, the civic sector's involvement in government discussions and decisions has increased compared to previous years. However, their impact still remains very limited. Moreover, in the wake of the 2020 war, the once predominantly liberal segment of society has now been supplemented with nationalistic and chauvinistic civil initiatives, as well as politically motivated NGOs and anti-democratic actors.

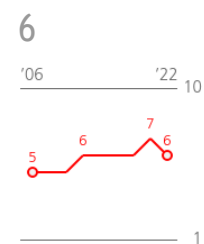
In spite of the COVID-19 pandemic restrictions in August 2020, environmental protests against plans to restart construction on the Amulsar gold mine turned into a confrontation between the police and protesters after security officials barred protestors from demonstrating in a public park surrounding parliament. Human Rights Watch pointed to the police having briefly detained six protesters on misdemeanor disobedience charges. Related protests continued near the town of Jermuk, where local residents and environmental activists blocked the roads to the mine, opposing its construction on environmental and economic grounds. The opening of Amulsar mine is still pending.

In 2019, a poll conducted by the International Republican Institute found a strong popular mandate for the new government to press on with reforms. More than 60% of respondents wanted the government to undertake both political and economic reforms quickly rather than gradually, 72% of respondents expressed a favorable attitude toward the performance of the Office of the Prime Minister, and 60% of respondents thought that the country was heading in the right direction.

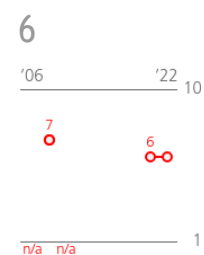
Another nationwide poll in Armenia in 2020 by the International Republican Institute's Center for Insights in Survey Research found still strong support for Prime Minister Nikol Pashinyan and for his government's management of the COVID-19 pandemic. According to this survey, 84% of Armenians had either a "very" (72%) or "somewhat" (12%) favorable opinion of the prime minister. Furthermore, a majority of respondents supported the government's management of the COVID-19 pandemic, with 48% "very" and 23% "somewhat" satisfied with the response. When asked how state institutions had handled the pandemic to date, respondents expressed improved opinions of the police (65%), the Ministry of Health (64%) and the Prime Minister's Office (58%).

After the war with Azerbaijan, however, the public attitude toward the government and of Pashinyan personally and hence their legitimacy rapidly deteriorated.

Interest groups



Approval of democracy



Likewise, approval for Western liberal democratic norms also decreased. It is therefore questionable as to whether the findings of the Caucasus Barometer 2019 still hold, which found that for 63% of the population, democracy is preferable to any other kind of government (with only 14% agreeing that in some circumstances, a non-democratic government can be preferable).

Many Armenians feel abandoned and accuse primarily the West of political inertia (in spite of the fact that Russia came to the rescue in the war with Azerbaijan only very late and at a high cost of lost lives and territory). In public opinion, international organizations like the United Nations and the European Union did nothing to prevent the suffering of the civilian population in Nagorno-Karabakh.

Generally, most social capital remains “locked” within family and close social groups. In light of this, there has been a relatively low level of interaction between various members and groups of society that would improve the democratic processes in the country. This was briefly – and decidedly – overcome during the Velvet Revolution. There are still some NGO coalitions working for the protection and promotion of human rights, whose impact has been limited so far.

What could be observed during the war on Nagorno-Karabakh and thereafter, was various volunteer initiatives to collect necessary items to send to the soldiers in Nagorno-Karabakh. However, after the defeat in the war, forms of xenophobia, social intolerance, as well as loss of trust in the society, have again become more pronounced in the extremely volatile environment.

II. Economic Transformation

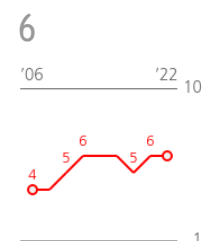
6 | Level of Socioeconomic Development

The economic challenges for Armenia are numerous and hard to overcome. They include low agricultural yields, dependence on Russia for exports and remittances, rising inflation, and high oil prices. Other significant challenges include Armenia’s geographic isolation (including two major borders currently closed), lack of infrastructure, a highly dollarized economy, and the consequences of the war in Nagorno-Karabakh.

The indices for Armenia show modest results: the 2019 Human Development Index (HDI) score was 0.776, placing it in the high human development category (and a slight improvement from 0.755 in 2017). The Gini Index in 2018 measured 34.4 and the 2019 UNDP Gender Inequality Index 0.245. The unemployment rate in Armenia in 2020 was estimated to be 16.6%. 9.8% of the population (World Bank 2019) live on less than \$3.20 a day. This was before the pandemic, which is expected to exacerbate the situation.

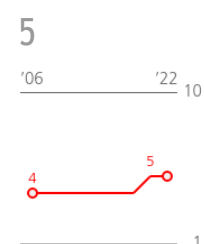
The country ranked 55 out of 160 countries in the UNDP’s Gender Inequality Index with a value of 0.262 in 2017. Although gender equality rates have been improving in recent years, the pace may not be fast enough.

Social capital



Question Score

Socioeconomic barriers



In response to the COVID-19 pandemic in March 2020, tight restrictions were introduced, and a full lockdown was imposed in April 2020. Infection and fatality rates have remained among the highest in Europe and the Central Asian region. Following robust growth in the past three years, which had continued in the first two months of 2020, economic growth has turned negative since March due to the restrictions imposed as the pandemic spread. The government launched 25 economic and social measures to mitigate the negative effects of the pandemic at an estimated cost of roughly 2.3% of GDP according to the World Bank.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	11527.5	12457.9	13672.8	12645.5
GDP growth	%	7.5	5.2	7.6	-7.6
Inflation (CPI)	%	1.0	2.5	1.4	1.2
Unemployment	%	17.7	19.0	18.8	20.2
Foreign direct investment	% of GDP	2.2	2.1	0.7	-
Export growth	%	19.3	5.0	16.0	-31.4
Import growth	%	24.6	13.3	12.0	-32.1
Current account balance	\$ M	-173.9	-860.0	-987.5	-394.2
Public debt	% of GDP	53.7	51.2	50.1	63.5
External debt	\$ M	10228.3	10725.7	11884.5	13093.9
Total debt service	\$ M	1433.6	1667.2	2072.4	1472.1
Net lending/borrowing	% of GDP	-4.1	-1.8	-0.5	-
Tax revenue	% of GDP	20.8	20.9	22.2	-
Government consumption	% of GDP	12.3	11.5	12.5	16.0
Public education spending	% of GDP	2.7	2.3	2.6	2.7
Public health spending	% of GDP	1.4	1.2	-	-
R&D expenditure	% of GDP	0.2	0.2	-	-
Military expenditure	% of GDP	3.8	4.1	4.8	4.9

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Armenia has made great progress toward the liberalization of its economy. According to the World Bank, Armenia ranks first among the CIS countries in terms of FDI appeal. The government has recently introduced conditions and laws favorable to foreign investment and, because of its economic dynamism, it has earned the nickname “The Caucasian Tiger.” These measures include free economic zones for high-tech industries that provide companies with preferential treatment on corporate profit tax, VAT, property tax, and customs duties (UNCTAD). The country does not impose restrictions on foreign control and rights to private ownership and establishment, and business registration procedures are fast. FDI is also promoted through the EU-Armenia Comprehensive and Enhanced Partnership Agreement. However, the country remains strongly dependent on the economic health of the Russian and EU economies for FDI. It has a small domestic market and corruption is still widespread. The World Bank’s 2020 Doing Business report places Armenia 47 out of 190 countries, down six positions from the previous year.

In order to improve the investment environment, and notably facilitate FDI, many laws have been passed: the laws on equal treatment for foreigners, no limitation on foreign ownership, freedom to repatriate profits, limited state intervention and deregulation have already been implemented.

After the 2018 revolution, the Pashinyan government began a process of reducing the shadow economy and transferring labor to the legal field by changing the progressive income tax into a flat tax of 23% for all. According to the government, this low flat tax will invite people to officially register. The IMF estimated Armenia’s informal (shadow) economy to be 36% of its overall GDP.

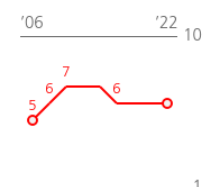
Lucrative sectors of the Armenian economy, such as fuel, wheat and sugar imports, have been dominated by de facto monopolies. The country’s competition authority, the State Commission for the Protection of Economic Competition, has been criticized for its inability to remove barriers to economic competition.

In 2018, after the change in power, the government vowed to do away with monopolies. Some monopolistic barriers were in fact removed, which resulted in a slight diversification of imports of sugar and bananas. Other sectors, such as the fuel and petroleum market, dominated by three or four large corporations, proved harder to diversify because of the infrastructural advantages these businesses had accumulated.

According to the World Economic Forum’s Global Competitiveness Report 2019, Armenia held its position in the overall ranking at 69 of 141 countries.

Market
organization

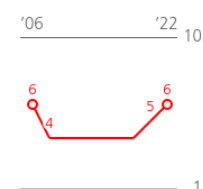
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Competition policy

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In the World Bank's Doing Business Report of 2020, Armenia is ranked 47 of 190 countries, also by and large unchanged. According to the report, Armenia, among others, strengthened minority investor protection, increased shareholders' rights and role in major corporate decisions, and clarified ownership and control structures.

Armenia follows an open and liberal policy in regard to foreign trade. It has been a WTO member since 2003. In 2019, Armenia's simple average most-favored nation (MFN) applied total tariff was 8.5%.

Armenia's trade is constrained by two closed borders and limited trade with Iran. Most of the country's trade goes through Georgia. In 2015, Armenia became a member of the Eurasian Economic Union (EAEU) in which the Eurasian Economic Commission is responsible for a common trade policy, including tariffs and technical regulations. Armenia does not have a common border with any EAEU countries, and goods must pass via Georgia to other EAEU countries, which leads to several complications. In 2017, Armenia signed a new agreement (CEPA) with the EU (in place of the previously negotiated association agreement), which regulates Armenia's trade with the EU.

Most imports are free of prohibitions or licensing requirements, except for some restrictions connected with health, security or environmental considerations. Some natural monopolies in gas, electricity and water sectors remain.

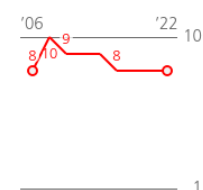
Armenia's main export commodities include copper ores, cigars, alcohol, and gold. Armenia mainly imports petroleum gases and oils, diamonds, medicaments and radio-telephony transmission tools. Armenia's main export partners are the European Union (28.7% of total exports), Russia (26.9%), Switzerland (14.1%) and Iraq (6.3%). The Russian Federation is the main import partner (26.2%), followed by the EU (22.6%), China (13.8%) and Iran (5.6%).

Armenia has a well-developed two-tier banking system which has been stable over the last 20 years. Most banks apply best practices to corporate governance and there is a high level of transparency in reporting, as per International Financial Reporting Standards (IFRS). Armenia's banks are pursuing an aggressive digitalization strategy, updating their processes both internally and externally. These moves are expected to lower costs of running businesses and increase sales.

The Armenian banking industry reacted to the pandemic in several ways. Banks reviewed the terms of existing loans. Initially, deposits also decreased. In general, it was expected that banks would face problems, but at the beginning of 2021 none have materialized, which is also partly due to the Armenian government measures taken via banks, thus keeping the sector active. Other important actions include the encouragement of digital financial activities, to reduce the physical presence of clients in bank branches, as well as additional social distance measures.

Liberalization of foreign trade

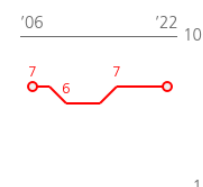
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Banking system

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According to the 2020 Investment Climate Statement from the U.S. Department of State, “the [Armenian] banking sector is healthy, and indicators of financial soundness, including capital adequacy ratios and non-performing loan rates, have been broadly strong in recent years. Non-performing loans have fallen to below 10% of total loans.”

8 | Monetary and fiscal stability

According to the IMF, monetary policy in 2020 has rightly been accommodative, supporting the economy and keeping the banking sector liquid. Inflation remains low, with the exchange rate relatively stable over the review period.

The Armenian central bank monitors market developments and adjusts its monetary policy stance, as necessary and independently, to preserve macroeconomic stability, while maintaining exchange rate flexibility to absorb shocks under its inflation targeting framework.

While the financial system has not shown signs of stress, supervisors are advised by the IMF to continue to identify vulnerabilities and risk factors in the banking system and stand ready to take relevant regulatory actions. In response to the pandemic, the board of the central bank cut the policy rate four times in 2020, by a cumulative 125 basis points to 4.25%, its lowest level since 2006.

Armenia’s gross international reserves in 2020 decreased by 8.2% (compared with an increase of 26.1% in 2019), amounting to \$2.616 billion, according to the central bank. Of these, the lion’s share (\$2.607 billion) is in foreign assets in hard currency, and Armenia’s special drawing rights are calculated by the IMF to be \$9 million.

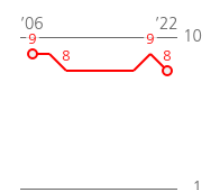
Armenia’s budget deficit will be about AMD 300 billion in 2021. However, it may be less than projected, as Armenian Economy Minister Vahan Kerobyan declared. In the government budget of Armenia for 2021, the deficit is projected to be AMD 341 billion (5.3% of GDP). Economic growth is predicted to be 3.2% and inflation 4% (\pm 1.5%). The public debt is expected to fall to around 60% of GDP over the medium-term.

Armenia’s economic growth accelerated in the first half of 2019 as household consumer activity and the mining industries recovered.

Armenian fiscal policy has been hit hard by the military confrontation with Azerbaijan and a large second wave of the COVID-19 pandemic in 2020. These twin shocks have had a significant impact on the economy. Economic activity is projected to contract significantly in 2020, by more than 7%, ending the recent period of notable economic growth. The crises have led to a deterioration of Armenia’s fiscal position,

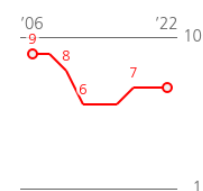
Monetary stability

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Fiscal stability

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and while there are currently no signs of stress in the financial sector, the full impact of the twin crises is still unfolding.

On April 29, 2020, the National Assembly of Armenia approved a revision of budget indicators that was prompted by the COVID-19 pandemic. The country registered the first infection on March 1, 2020, with the virus spreading rapidly thereafter, prompting a tightening of restrictions and eventually a full lockdown in April 2020.

The government launched several economic and social measures to mitigate the impact of the pandemic at an estimated cost of around 2.3% of GDP, pushing current public spending in the first seven months of 2020 up by 19%. Capital spending increased by 62%, but from a low base in 2019, and it remains below budgeted levels. Revenues fell by 6%, resulting in a deficit of around 1.7% of projected annual GDP in the year-to-July 2020.

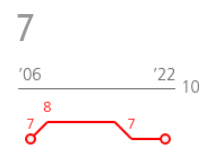
The National Statistical Committee of Armenia calculates the total public debt of Armenia at the end of July 2020 to be \$7.9 billion, an increase of \$220 million within a month. At the same time, since the beginning of 2021, total public debt has grown by \$618 million. Armenia's consolidated fiscal balance recorded a deficit equal to 4.8% of its nominal GDP in September 2020, compared with a deficit equal to 3.5% in the previous quarter. The data reached an all-time high of 0.5% in June 2019 and a record low of -7.5% in December 2009. Total reserves including gold was reported at \$2.85 billion in 2019, a moderate increase from the previous \$2.26 billion for 2018 (www.ceicdata.com).

9 | Private Property

Armenian law adequately protects property rights, though officials do not always uphold them. Armenia holds a fairly high score of 55 in the most recent Property Rights Index (on par with Georgia and ahead of Mongolia and Azerbaijan). Economic diversification and simpler regulations have increased the ease of doing business in recent years, but a lack of transparency and persistent cronyism continue to create unfair advantages for those with ties to public officials.

Armenia raised property tax in 2020. Under the current system, properties in Armenia are taxed based on their land registry value, which is often much lower than the market price. The reform, which is being phased in from January 2021, scraps an exemption for low-value homes and introduces a progressive tax based on market value.

Property rights



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Despite the lack of a comprehensive medium-term SME strategy, the institutional and regulatory framework for SME policy has further improved as the SME DNC (the SME agency) has extended the scope of services provided to SMEs, and a revised e-procurement system was introduced in 2018. There has also been a growing focus at the policy level on the importance of entrepreneurial human capital for national competitiveness, and the government's efforts in this area should be recognized and further supported.

One of the main changes brought by the new government was the Law on Confiscation of Illegal Property, which set out processes for confiscating property acquired through illegal channels or illegal means. Confiscation is conducted by a civil court, with a lower burden of proof than in criminal processes. The process is directed at the illegal property rather than at the owner, and a bona fide owner is only protected in limited cases. Before commencing business relationships, acquiring a property or structuring a business in Armenia, investors should carry out extended due diligence to ensure that the business or property will not be affected by the implications of this law. However, there is no court practice as yet and so the real impact will only be possible to evaluate in several years' time.

10 | Welfare Regime

Various schemes ensure pensions, which are obligatory for officially employed people. Pensions are also obligatory for unemployed, poor, ill or handicapped people, but they are low and are often insufficient to meet basic needs. Although the funding of pensions is the largest spending program in the state budget, and the government continuously increases the funds channeled to pensions, the size of pensions remains low, failing to perform its main function.

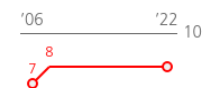
Public kindergartens and schools are free of charge. State universities have quotas for tuition fee waivers. Basic medical services – limited in scope – are covered by the state, while treatment of several medical conditions is either subsidized or free of charge in select hospitals.

Life expectancy at birth is 74.9 and public expenditure on health is 1.4% of GDP, which is roughly where it was at during the last period under review.

The social service delivery system for the elderly in the social protection sector has never been at a sufficient level, and the social services delivered to the elderly have been unevenly distributed in terms of geography. There is a low level of awareness among the elderly of their own rights and the presence of existing services. There is no mechanism to ensure that the elderly participate in decision-making at national and municipal levels. There are no “competitive” mechanisms for the state to outsource care and assistance services for the elderly to private entities.

Private enterprise

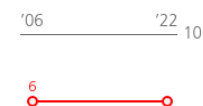
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Social safety nets

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A legal framework supporting the introduction of the social assessment of families based on a rights-based approach and multidimensional poverty is missing. The social assistance system is not always technically fully equipped. For example, it can lack necessary mobile technologies used in social work and during case management. The number of social workers in the system with relevant professional qualifications remains low. Hence effectiveness of the state-implemented social policy is not sufficient. In particular, the use of a benefit system to improve the living standards of a family is currently primarily about alleviation rather than overcoming poverty.

Providing assistance for shelter within the social assistance system is a major issue. Research by the Statistical Committee shows that lack of housing is among the main causes of poverty. The logic of social policy in the past was to establish a dedicated social housing stock, which has led to public isolation of vulnerable social groups by grouping them together, often exacerbating rather than solving problems. Observations suggest that such environments have led to an accumulation of extremely poor groups, leading to formation of unique ghettos, particularly in urban areas.

The COVID-19 pandemic has had a particularly severe impact not only on officially registered workers and socially vulnerable groups, but also on a number of other groups, notably unregistered workers. The latter are very diverse, ranging from the self-employed to employees who work in small or medium size enterprises but are not officially registered by the employer. The pandemic exacerbated the situation of these neglected groups, frequently leading to a severe level of hardship.

Unregistered workers are one of the most vulnerable groups, as they do not benefit from a number of socioeconomic programs. Reasons for not registering a job include sponsorship, taxes, the labor law, and inefficient bureaucracy. The IMF observes that more than 58% of Armenia's labor force is out of retirement, confirming the worrying size of the shadow economy.

During the Karabakh war, which lasted 44 days, according to data from the Karabakh government, approximately 90,000 people fled to Armenia from Nagorno-Karabakh. About half of them went back after the cease-fire. The issue of Internal Displaced Persons is high on the agenda, as it requires the state to provide those fleeing the conflict with humanitarian assistance such as food and housing.

Achieving gender equality is outside the scope of the powers of any single government agency and therefore a strategic document was prepared for carrying out a comprehensive inter-agency gender policy. The Gender Strategy for 2019 - 2023, approved by the Armenian government on September 19, 2019, focuses on overcoming discrimination, creating favorable and equal conditions for the exercise of women's and men's rights and opportunities, namely, equal participation of women in governance and decision-making, and expanding opportunities for women in the economic sector (the share of the female labor force is currently 46.1%).

Equal opportunity

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Measures include the implementation of programs to boost women's entrepreneurship, equal access to education and health programs, and strengthening the national mechanism for women's advancement. The ratio of female to male enrollment is 1.0 at primary schools (while gross enrollment is 91.8%).

In higher ranking positions in particular, there is still a large asymmetry between women and men. The global Inter-Parliamentary Union in its "Women in Politics: 2019" report, ranked Armenia 76 out of 191 countries, pointing to the number of seats women hold in parliament. According to the Gender Gap Index 2018, Armenia is 115 out of 149 countries in terms of women's political empowerment.

Violence and discrimination based on sexual orientation and gender identity, discrimination against and segregation of people with disabilities, and domestic violence all persisted in 2019 and in 2020. In most cases, authorities did not protect women and child survivors of domestic violence, jeopardizing their lives and well-being. As Human Rights Watch noted, law-enforcement bodies lack awareness and training on protection mechanisms envisaged by the law, such as protection orders, and do not adequately use them.

According to UNDP, the local context also presents several challenges to the goal of participation, empowerment and gender equality. Various studies point to political, socioeconomic and cultural factors, which limit participation of women. These include insufficient mechanisms to advance gender equality at the national and local level, reluctance of political parties to appreciate and promote women leadership, narrow gender identities, limited access to resources for economic empowerment, lack of female leadership in culture and support networks, and lack of confidence and skills among women. All these factors limit opportunities for building a critical mass of women in national and local governance.

The policy adopted in the area of equal opportunities for disabled people in Armenia is aimed to ensure the social inclusion of people with disabilities, promoting equality of rights and creating equal opportunities for them. The legal acts regulating the area of disability are contradictory, and feature gaps and inconsistencies compared with the norms of international conventions. This fact impedes the full protection of rights and fundamental freedoms of people with disabilities.

11 | Economic Performance

Armenia has been growing at a relatively fast pace in recent years. Expatriate remittances, the rise in international copper prices, and a business-friendly monetary policy aided the country's economic development. Other strengths include major mining resources (molybdenum, zinc, copper, gold), financial support from international organizations, and membership in the Eurasian Economic Union (EAEU), as well as a partnership with the EU.

The Armenian economy has been hit hard both by the COVID-19 pandemic and the war in Nagorno-Karabakh, which together brought a shock to all aspects of life in the country. As noted by the IMF, the authorities have responded promptly with health care and anti-crisis measures to limit the pandemic's impact while protecting vulnerable groups and safeguarding sustainability, as well as macroeconomic and financial stability.

According to the World Bank 2020 report, the economic impact of the pandemic has been severe. Following a strong start in the first two months of 2020, when the economy grew by 9.2%, growth turned negative in March as businesses were forced to close and remittances and tourist arrivals dried up. By mid-year, the economy had contracted by 5.7%, driven by a sharp contraction of private consumption (8.9%) and investment (30.7%), only partially offset by higher government spending and import compression. On the supply side, construction and services were most affected, with financial and ICT sectors remaining more resilient due to their greater reliance on digital technologies. Agricultural output grew by 1.8% in the first half of 2020, and growth from a low base in 2019 saw mining increase by 21.7%.

Overall, the economic contraction in 2020 was calculated to be -7.9%, with services, manufacturing and construction sectors taking the biggest hit. April through June 2020 saw the sharpest drop, of -13.7%. According to Reuters, Armenia's economy is set to grow 3.2% in 2021, below the previous forecast of 4.8%. This estimate is based on a budget plan approved by parliament in December 2020, as the country was still coping with the pandemic and the fallout of the Karabakh war.

Finance Minister Atom Janjughazyan stated that meeting the revised economic growth forecast of 3.2% in 2021 would require hard work. The 2021 budget forecasts a deficit, covered by internal and external sources, at 5.3% of gross domestic product, with revenues at AMD 1.5 trillion (\$2.9 billion) and spending of more than AMD 1.8 trillion. The annual inflation target for 2021 is the same as 2020, projected at 4%, plus or minus 1.5%.

Output strength



12 | Sustainability

On March 27, 2019, the Republic of Armenia ratified the Kigali Amendment to the Montreal Protocol of the Vienna Convention on the Protection of the Ozone Layer, under which Armenia has committed to gradually limit the use of hydrofluorocarbons (HFCs) starting from 2024, and to achieve a reduction of 80–85% up to 2045.

The key focus of the environmental management and climate change policy in the review period was the complex preservation and restoration of the environment and natural resources. Large-scale work has been done in 2019 and 2020 in the area of environmental management, in partnership with global and regional international structures and within the framework of international conventions and initiatives. Forest restoration activities in specially protected nature areas were conducted in 2019.

Currently, several programs on climate change, renewable energy and energy efficiency are underway. They seek to address the issues of climate change mitigation, increase efficiency and resilience of resource use, and mobilize communities for climate action. These programs include, for instance, the Green Cities and De-Risking and Scaling-up Investment in Energy Efficient Building projects, funded by the Green Climate Fund.

The Ministry of Nature Protection is represented in the supreme decision-making bodies in nine international environmental conventions ratified by the Republic of Armenia. In the review period Armenia became a member of the Green Climate Fund.

Armenia has maintained a good quality level of basic and secondary schooling. Enrollment rates at both levels remain high, and over 99.7% of the population is literate (as of 2017). Armenia had in 2019 a score of 0.740 (from 0 to 1, the highest) in the UN Education Index, representing a slight decrease on previous years.

In 2020, the Armenian government published its proposal for K-12 curriculum reform in Armenian schools. The new curriculum, which includes setting education standards and learning outcomes, proved to be relatively controversial, with criticism focusing notably on segments on literature and Armenian history.

The law passed in 2020, according to which the state will compensate the tuition fees for employed graduate students majoring in professions specified by the government by income tax return. This mechanism will provide an opportunity to promote the affordability of lifelong professional education.

Despite numerous promises by the ruling elite and two parliamentary hearings on the need to better address persistent problems in science, no progress has been made to date. Expenditure on education remains moderate at 2.7% (in 2017). Even less is spent on R&D (0.2%, 2018). In both cases, these figures represent less than in previous years, and considerably less than what is required to even maintain, let alone improve, the standard of education.

Environmental
policy

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Education policy /
R&D

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Governance

I. Level of Difficulty

The structural constraints Armenia faces include extreme poverty (especially child poverty), the lack of an educated labor force, a disadvantageous geographical location (with two of its four borders closed), severe infrastructural deficiencies, political or economic dependence on another country, and low diversification of the economy.

In economic and security terms, Armenia is overly reliant on its nominal ally, Russia, which controls most of the country's strategic assets, including the entire gas distribution network, railroads and telecommunications, and enjoys a near-monopoly on the gas market. The country of around three million depends heavily on aid and investment from Russia, whose economic downturn has hit Armenian exports as well as remittances from Armenians working there in recent years. The unemployment rate remains high. This disheartening overall situation has led to high levels of emigration and brain drain for decades.

The COVID-19 pandemic had a serious impact on Armenia, due to fairly high infection rates (exacerbated by the war during the second wave of the pandemic in autumn 2020), border closures and declining remittances from Russia.

Over the course of a decade of social and political street struggle, many civil society groups have developed into effective agents of change, acting as the backbone and the locomotive of public mobilization during the Velvet Revolution.

Yet, since the revolution, civil society has been “nationalized” in the sense that many leaders and activists moved to the ruling party “My Step” and into the government. The civil society in Armenia can be seen as having taken two divergent pathways, as described by the research of a local research NGO, Socioscope. The first pathway is characterized by the entry of civic activists into institutionalized politics, and the second pathway involves activists' steadfast refusal to engage in institutionalized politics and to instead continue to work within civil society.

The COVID-19 pandemic, as CSO Meter Research 2020 explores, had an impact on the activities of CSOs, including their funding, participation in decision-making, and cooperation with the state in various ways. CSOs are concerned that the limitations will have long-lasting effects, particularly with regard to limited participation tools and access to information. On the other hand, the pandemic also brought new

Structural
constraints

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Civil society
traditions

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opportunities for funding, strengthened skills in using digital tools, and opened new areas of collaboration with the state.

After the Karabakh war, local NGOs called upon the government to tackle the immediate problems that are seen as hampering Armenia's capacity to resolve the imminent crisis in a sustainable way. They suggested this was required so that the people in Armenia and beyond regain confidence in a state that aims to present itself as an independent and democratic one, and one that is strong and effective enough to protect its citizens and guarantee their security, rights, and well-being in the long run.

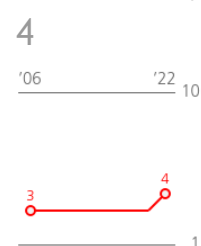
The present major confrontation in Armenian politics arose after November 10, 2020, when the Armenian, Azerbaijani and Russian leaders signed the cease-fire deal terminating the war in Nagorno-Karabakh. This led to a deep split in Armenian society.

A Homeland Salvation Movement (HSM), a coalition of several Armenian political forces, was formed, and demanded the resignation of Prime Minister Nikol Pashinyan and his government. The HSM organized street protests in Yerevan, seeking to force Pashinyan's resignation. The coalition proposed the formation of a transitional government headed by Vazgen Manukyan, a former prime minister. However, in spite of its hold on the media and other resources, this movement, composed of former notorious leaders, has been unable to mobilize large groups of the population. The public were able to grasp that the true reason behind the movement was the desire of former corrupt politicians to return to power and seize an opportunity to do so.

However, the public in Armenia does recognize that the country has plunged into a deep crisis after the war, and the government's days are numbered. Prime Minister Pashinyan and his team took quite some time to finally agree to snap elections to be held later in 2021. The limited level of public protest led some to conclude that there was "no public demand" for an early vote.

At the beginning of 2021, Armenia's former President Robert Kocharyan announced his intention to return to national politics. In an interview with the Russian Sputnik news agency, Kocharyan emphasized the need for "notable and strong individuals," to challenge the current Armenian leadership and its affiliated forces. Social consensus is under severe pressure, and Armenian society is currently highly polarized.

Conflict intensity



II. Governance Performance

14 | Steering Capability

The government somehow lacks the strategic capacity to prioritize and organize its policy measures. One reason is a lack of professionals in the revolutionary team. At times there has been a preference for loyalty over competency in appointments. In addition, the COVID-19 pandemic and the defeat in the war have turned the priorities of the government upside down. After the war in particular, the government switched into a survival mode dominated by short-term, tactical maneuvers.

One of the most fundamental documents issued by the government has been the 2019 – 2023 Strategy for Judicial and Legal Reforms, which introduced plans to make the National Assembly a more multiparty legislative body, in addition to other proposed electoral changes. It remains to be seen how the implementation of the strategy moves forward, but in the present – once again transitory – conditions, everything is on halt.

After the Velvet Revolution, changes have occurred in almost all sectors of governance. However, these changes have been fragmented and without serious impact. Reforms include an increase in the minimum wage, an increase in pensions for certain groups, and improved conditions in the armed forces. However, these advances cannot be described as large-scale institutional change.

The International Republican Institute found that people consider bad management to be the government's greatest failure, followed by a lack of public influence on decision-making processes. The same public survey found that people's top priorities were jobs, socioeconomic problems, and wages.

In March 2020 Armenia's parliament passed amendments granting the authorities very broad surveillance powers to use cellphone data for tracking COVID-19 cases. The amendments imposed restrictions on the right to privacy and granted the authorities access to confidential medical information related to people exposed to COVID-19. The law requires telecommunication companies to provide the authorities with phone records of all customers, including phone numbers and the location, time, and date of their calls and text messages. The authorities would supposedly use these data to identify, isolate (or put in self-isolation) and monitor anyone infected with COVID-19 or those who had been in close contact with infected people. Human Rights Watch reacted to this by commenting that while restrictions on the right to privacy in order to contain the pandemic may be permissible, the government must ensure that such restrictions are lawful, necessary, and proportionate.

Question
Score

Prioritization

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Implementation

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The Armenian government is actively pursuing close collaboration with numerous international partners and is open to innovative strategies and policymaking mechanisms. This has become a new feature after the Velvet Revolution, accompanying the influx of a new generation of politicians and experts into the government with little governance experience. Hence it was clear that the new government would need to go through a long and steep learning curve.

The new government was expected to be open to cooperation with civil society groups that have field-specific expertise. Yet it turned out that the government often failed to properly check or discuss ideas with local experts or researchers before taking action, something which is indispensable to effectively taking country characteristics into account. Reliable monitoring regarding the effectiveness and potential impacts of reforms has been another shortcoming of the current government.

The widespread lack of experience of the inexperienced new members of government and public administration, and the steep learning curve, are undoubtedly reasons for these shortcomings.

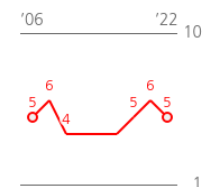
15 | Resource Efficiency

According to observers, the Armenian public sector underperforms when it comes to resource efficiency. A bloated civil service, as well as corruption, have resulted in inefficient management of human, financial and organizational resources. This issue was addressed after the revolution of 2018, but many problems persist at all levels. For instance, Prime Minister Nikol Pashinyan has surrounded himself with individuals clearly lacking professionalism. He has relied primarily on his teammates from the “Civil Contract” over the past two years, and although they are viewed as honest and not prone to corruption, the young age and inexperience of many ministers and members of parliament is concerning. There are several people appointed or elected to positions who are clearly not qualified for the jobs they hold. At the same time, there is significant untapped potential of competent professionals, both in Armenia and in the diaspora, who could be engaged in the nation-building process, as pointed out by the analyst of Asparez Daily.

According to the UNDP Gender Equality in Public Administration of Armenia (GEEPA) project, the empowerment of women also remains a critical issue in Armenia. Women comprise 56% of those with higher education. However, their representation in decision-making at all levels remains low: 24.2% in parliament, less than 10% at local governance. Within the new public administration, the number of women at the highest positions continue to raise concerns, with women comprising only one of 12 ministers and only 12 of 46 deputy minister positions.

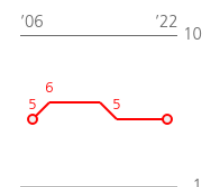
Policy learning

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Efficient use of assets

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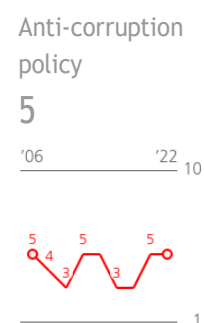
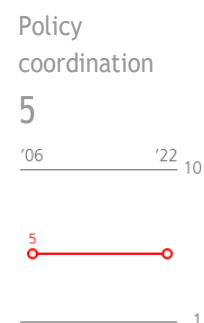
In terms of foreign resources, the Comprehensive and Enhanced Partnership Agreement with the EU of November 2017 gives Armenia access to EU financial and technical assistance.

In addition to the fact that the country suffers from a lack of resources and is plagued by both corruption and nepotism, policy coordination is hindered by weak inter-agency cooperation and dialogue. There are no proper mechanisms to identify, reach and assist societal groups in need, and the country does not have the institutional infrastructure to address needs horizontally (across agencies) or vertically (at local and national levels). There are no channels through which independent policy research institutes and expert groups may be able to contribute to or influence policymaking.

From 2018 to 2019, Armenian state agencies were engaged in drafting joint goals for Armenia's development, to be met by 2050. Presented as "mega-goals" in 2020, Prime Minister Pashinyan announced the government's intention to transform Armenia into an industrial country, promising to increase the volume of GDP by a factor of 15, support the emergence of at least five large technology enterprises with capital, facilitate the creation of up to 10,000 functioning startups, and increase salaries by a factor of seven. In addition, the country's armed forces were slated for improvements so that they would rank among the 20 leading countries of the world. A 20-fold increase in health care was also planned.

Since 2018, Armenia has made significant progress by international indicators in terms of fighting corruption and in the development of democracy. In 2019, an Anti-Corruption Committee was formed under the prime minister which later developed Armenia's Anti-Corruption Strategy and Action Plan. In 2020 the Armenian government formally approved a bill to create a special law-enforcement agency tasked with investigating cases of corruption.

The activity of the newly established Corruption Prevention Commission is in its infancy. This self-governing body will study the property declarations of officials, prosecute cases of conflict of interest, initiate proceedings, and, in case of *corpus delicti*, forward cases to the Prosecutor General's Office. In addition to the above, the body will also implement anti-corruption education programs and several other functions. According to Ampop Media, the five members of this newly formed body were elected by parliament on November 19, 2019. Based on the amendments made to the Law on the Corruption Prevention Commission, the candidates were nominated by the government, the Supreme Judicial Council, the ruling faction and two opposition factions.



16 | Consensus-Building

The Velvet Revolution rejected the former nondemocratic regime and its oligarchic, corruption-inflicted and unproductive economy. There has been a strong consensus and an overwhelming public demand to move toward a consolidated democracy and market economy. However, the defeat in the war with Azerbaijan has shaken this post-revolutionary consensus considerably. Absent from this consensus used to be the old guard, which had lost power and had been pushed to the margins of politics. However, in the wake of the military defeat - the responsibility for which was in large part theirs due to inadequate military preparation and diplomatic stalemate - the old guard are seeking to make a comeback, which does not bode well for democracy.

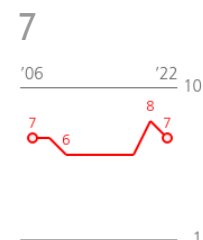
Market economy principles have been less controversial throughout Armenia's post-Soviet history than democratic ones. The post-revolutionary economic reform consensus went beyond this partly declaratory stance. However, among those who shared in this consensus, friction started to emerge regarding the nature of Armenia's economic policy. The government began with centrist approaches to economic development but has become increasingly neoliberal. The latter is rejected by Armenia's civic activist base, which holds social-democratic and leftist views.

The defeat of Armenia in the war in Nagorno-Karabakh altered the political landscape in fundamental ways. First of all, it provided a perfect opportunity for the old guard, deposed by the 2018 revolution and harboring an anti-democratic determination, to strike back. Armenia's former President Robert Kocharyan announced his intention to return to politics, emphasizing his experience and popularity as savior of the country. The two opposition parties in Armenia's parliament, "Bright Armenia" and "Prosperous Armenia," seized the moment and demanded Prime Minister Pashinyan's resignation and the formation of an interim government. "Prosperous Armenia," allegedly controlled by Kocharyan, is a key member of the opposition coalition holding anti-government rallies in Yerevan.

The opposition coalition essentially consists of the so-called Homeland Salvation Movement, which emerged in postwar Armenia with the aim of forming an interim government under the leadership of Manukyan, the first Armenian prime minister. He and others were charged with violently overthrowing the constitutional order by the Armenian Prosecutor General in early 2021.

Apart from these forces there are extreme right-wing initiatives on the fringes of Armenian politics. Adekvad, an openly anti-democratic initiative, now a party, launched its Facebook page in June 2018 and quickly gained popularity, with more than 27,000 followers. It is renowned for its nationalist, anti-Western and extreme right-wing stances. An example is its claim that many of Armenia's young elite being educated or trained in the United States represents "the second stage of the genocide." Other favorite targets include Armenia's LGBT minority and financier and

Consensus on goals



Anti-democratic actors



philanthropist George Soros. However, the most frequent target is Prime Minister Pashinyan, for the fact that he has allegedly opened the door to all those influences in Armenia.

“VETO” is another post-revolutionary, anti-democratic initiative. It spreads nationalistic views via aggressive speeches and provocative actions aimed at the authorities sponsoring or defending anything that, in its view, has a connection with the LGBT+ community. “Kamq” (will) is another anti-democratic, “civil initiative” which existed long before the revolution. It has been actively disrupting events that it labels anti-Armenian, anti-Russian, pro-sexual liberty, pro-LGBT+, or Satanist, such as heavy metal concerts. The sources of funding for these groups are unknown, but the groups claim donations from supporters. Inevitably, Adekvad has been accused of conspiring with Russia.

The war with Azerbaijan overshadows all cleavages which previously existed in Armenian society. It has injected the previous divide between the new revolutionary majority and the old guard with fresh impetus. However, there is little discussion over either democracy or the market economy in postwar Armenia. The only major consensus between the political opposition parties is that Prime Minister Pashinyan and his team should relinquish power, as they allegedly took the country to defeat and are to be blamed for the human and territorial losses.

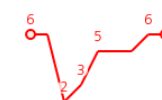
According to the political scientist Armine Ohanyan, many of the foundations of Armenia’s democratic transition and the level of support from civil society remain fairly strong, but the stress of the COVID-19 pandemic, coupled with the war and its aftermath, have revived pre-existing political divisions: “If current trends hold, Armenia’s unfolding political crisis is nothing less than a make-or-break moment for the country’s sovereignty and its prospects as a democratic state in an increasingly multipolar world. It is a test of whether Armenia’s government and political elite can manage their competition and disputes within the constitutional parameters of parliamentary politics.”

Local analyst Gor Madoyan believes that the decline in legitimacy of Prime Minister Pashinyan and his team due to the war is only problematic if they seek to stay in power and continue to implement reforms. A major change in the government may calm things down but is only a temporary solution: it cannot address the existing challenges in the long run. The upcoming parliamentary elections may reinforce the role of parliamentary processes, by moving the current opposition from the streets to the parliament.

Cleavage /
conflict
management

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CSO Meter 2020 highlights that in 2019, CSOs continued to actively engage in the development of a number of policies and strategies. In particular, it cites the 2019 - 2023 Strategy for Judicial and Legal Reforms, the National Strategy for Human Rights' Protection and Deriving Action Plan for 2020 - 2022, and the Anti-Corruption Strategy of the Republic of Armenia and its Action Plan for 2019 - 2022. All were adopted in 2019 after an extensive discussion with - and input of - local civil society groups and international organizations.

Although not defined as mandatory by legislation, public hearings and discussions were convened in the National Assembly on the initiative of members of parliament and parliamentary factions.

However, civil society actors during the review period began to feel increasingly neglected and have become openly critical of the government. Their criticism was more often than not dismissed, and some of the newly appointed officials, often from NGOs themselves, appeared to be personally offended by such criticism.

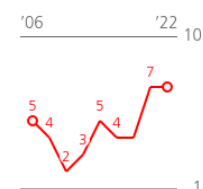
After the Velvet Revolution the new government announced it would employ a transitional justice approach to dealing with past crimes. This has, among others, led to the prosecution of ex-President Robert Kocharyan and a number of other officials who are charged with “overthrowing the constitutional order,” for supposedly using army units against protesters in quelling public protests after the presidential elections in 2008, which resulted in the deaths of 10 people. But this process of transitional justice is still incomplete (and Kocharyan’s announcement to return to politics is certainly also aimed at putting an end to it).

But here again, the war which has traumatized Armenian society, occupies almost all attention. The human and territorial losses contribute to people’s anger toward Prime Minister Pashinyan.

While this situation is still unfolding and with more political crises yet to come, the Armenian government seems not to have an adequate strategy in place to de-escalate the situation. Pashinyan’s government has a number of unfortunate realities to confront.

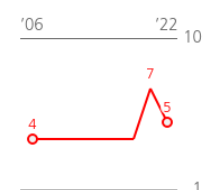
Civil society participation

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Reconciliation

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17 | International Cooperation

Due to the fact that the revolution came as a surprise within Armenia as well as abroad, Armenia's international partners were initially unable to respond to the new government's expectations. This started to change during 2019. EU member states and a number of international organizations certainly welcomed Armenia's democratic transition and called on the authorities to undertake profound reforms in economic, justice and political areas. They also highlighted the need to address discrimination against a range of minority groups. However, implementation proved arduous, despite the two thirds majority in parliament and the declared best of intentions.

On June 17, 2020, the Council of Europe, jointly with the Armenian government, launched the Action Plan for Armenia 2019 - 2022 (adopted by the Council of Europe's Committee of Ministers on January 9, 2019) to support the government's efforts to "reinforce human rights, ensure justice, combat threats to the rule of law, and promote democratic governance." In October 2020, the Venice Commission, a Council of Europe advisory body, issued an expert opinion countering harmful myths about the CEU Istanbul Convention combating violence against women and domestic violence, and concluded that Armenia's ratification of the treaty would not contradict its constitution.

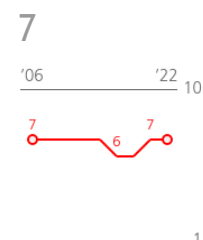
Armenia has been in discussions with the EU over the Comprehensive and Enhanced Partnership Agreement (CEPA), which was signed on November 24, 2017. Now ratified by all EU member states, the CEPA came into force on March 1, 2021, and will provide assistance to Armenia for strengthening cooperation in the areas of mutual interest, in particular in the political and economic fields. Its effective implementation will strengthen democracy and human rights, while also creating a better investment environment.

After the Velvet Revolution, Armenia could bank on many sympathies and support from abroad, which has not yet completely disappeared, pending a solution to the political crisis after the war.

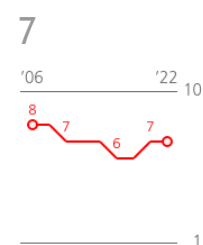
Hence, during the review period, Armenia was engaged in active cooperation with many international institutions (e.g., the EU, World Bank, European Investment Bank, European Bank for Reconstruction and Development, Asian Development Bank). The government also sought to boost the efforts of civil society and the private sector in an effort to implement the UN's Sustainable Development Goals.

As the 2020 SDG Report on Armenia claims, though Armenia regularly enjoys international financial assistance to implement the SDGs, the SDG Voluntary

Effective use of support



Credibility



National Review 2018 report states the low level of FDI in Armenia, naming it a challenge, despite great progress toward economic liberalization.

Though Armenia has ratified various international documents, improved its national legislation, including specifying the country's commitments to ensure human rights protection, gender-based discrimination still remains an urgent problem. A law on ensuring legal equality, which aims to provide equal treatment of every person and citizen, is yet to be approved. Armenia should ensure there exists a legislative and policy framework to advance women's political and economic participation.

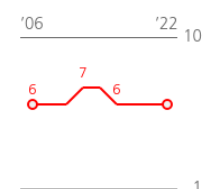
After the Velvet Revolution the government pledged to make no critical changes to its foreign policy. How Armenia handles its over-reliance on Russia will largely influence its regional and international standing and will determine the extent to which it can expand relations with other partners. Georgia and Iran are important partners for Armenia, and with Georgia in particular, the government is actively seeking to strengthen relations. A potential risk concerns the reactivated U.S. sanctions against Iran, and Armenia is trying to somehow navigate this challenge.

The 2020 war between Armenia and Azerbaijan over the disputed territory of Nagorno-Karabakh has had major political implications for Armenia. After 44 days of bloody armed conflict, Russia brokered a cease-fire, which in fact amounted to a defeat for Armenia. The defeat dramatically challenged Armenia's fragile democracy, resulting in a deep political, social and economic crisis, and it brought in new regional security issues for Armenia.

In terms of regional cooperation, it remains to be seen how the situation in the region evolves. Although the cease-fire foresees a reactivation of previously frozen regional contacts and lines of communication (such as, for example, the reopening of the railway link from Armenia to Iran through the Azerbaijani exclave of Nakhichevan), little has materialized so far.

Regional
cooperation

6



Strategic Outlook

The military conflict between Azerbaijan and Armenia that started on September 27 in the Nagorno-Karabakh region and ended after 44 days with a defeat of the forces of Armenia and those of Artsakh (Nagorno-Karabakh) has had major political consequences for the country. Until this day it poses significant risks to Armenia's democratic transition and moreover to the state-building-process and the security in the country.

In 2018, Nikol Pashinyan rose to prominence as the leader of broad demonstrations across the country against the political establishment, demanding a more democratic Armenia and an end to corruption. In the wake of the war, Prime Minister Pashinyan has endured the hardest days of his political career. He is flatly rejected by many political actors as well as by many prominent Armenian institutions (such as the Armenian church). The catastrophic result of the Nagorno-Karabakh war has traumatized Armenia and shattered public trust in, and legitimacy of, the government. However, this development is attributable to several factors, most prominently negligence and arrogance with regard to Armenian defense capabilities, the blame for which can be largely attributed to the previous regime.

Upon assuming power, the Pashinyan government took important steps to reform the administration and fight corruption. Several reforms, including ones to the media, judiciary and tax, have been essential. However, Prime Minister Pashinyan has been criticized for politicizing judicial power by appointing personal favorites to important posts and dampening critical debate concerning this matter. The state of emergency introduced to fight the first wave of the COVID-19 pandemic, and later the martial law introduced at the beginning of the war, were subject to strong criticism. It prompted a broad public debate on the re-emergence of the old – and seemingly vanquished – political reality; there was a widespread feeling that the government was attempting to control public discourse and public space. Since the end of the war, the government has lifted most restrictions on rights and freedoms, which partly facilitated the political turmoil following the cease-fire. It will be a difficult task for the government to survive this series of crises.

The consequences of the war also challenge Armenia's statehood. Yerevan lost control of large parts of Nagorno-Karabakh and now faces a challenge to protect its own territorial integrity. According to the cease-fire agreement, the government is tasked to ensure transportation links between western Azerbaijan and its Nakhichevan exclave through Armenian territory. It is not clear how this provision is to be fulfilled. Armenia's own connection to Nagorno-Karabakh is only guaranteed by Russian peacekeeping forces deployed along the narrow Lachin corridor. However, the role of Russian forces in and around the country remains likewise vague (bearing in mind that Russia only intervened in the war at the very last moment – in spite of the security guarantees provided by the Organization of Collective Security). With a view to Turkey's military presence in the region, Armenia has an urgent need to find a new political balance. Due to a lack of government legitimacy, intensified political division, and deep public polarization, this process faces heightened challenges if it is to prevent the country's fragile transition from falling apart.

Armenia's economy is set to grow by 3.2% in 2021, below the previous forecast of 4.8%, according to a budget plan approved by parliament in December 2020. The country is still dealing with the COVID-19 pandemic and the consequences of the Nagorno-Karabakh war. According to the finance minister, even the downward revised economic growth forecast of 3.2% of 2021 is optimistic. The 2021 budget forecasts a deficit, to be covered by internal and external sources. Armenia's budget deficit will be approximately AMD 300 billion and the public debt is expected to fall to around 60% of GDP over the medium-term.

The 2020 war has been the single most important event in the review period. It has traumatized Armenian society. The human, territorial, cultural and security losses are enormous. While this situation is still unfolding and more political crises are yet to come, the Armenian government needs a viable strategy in place to de-escalate the situation and deal with its consequences. The parliamentary snap election due on June 20 might be a first step.