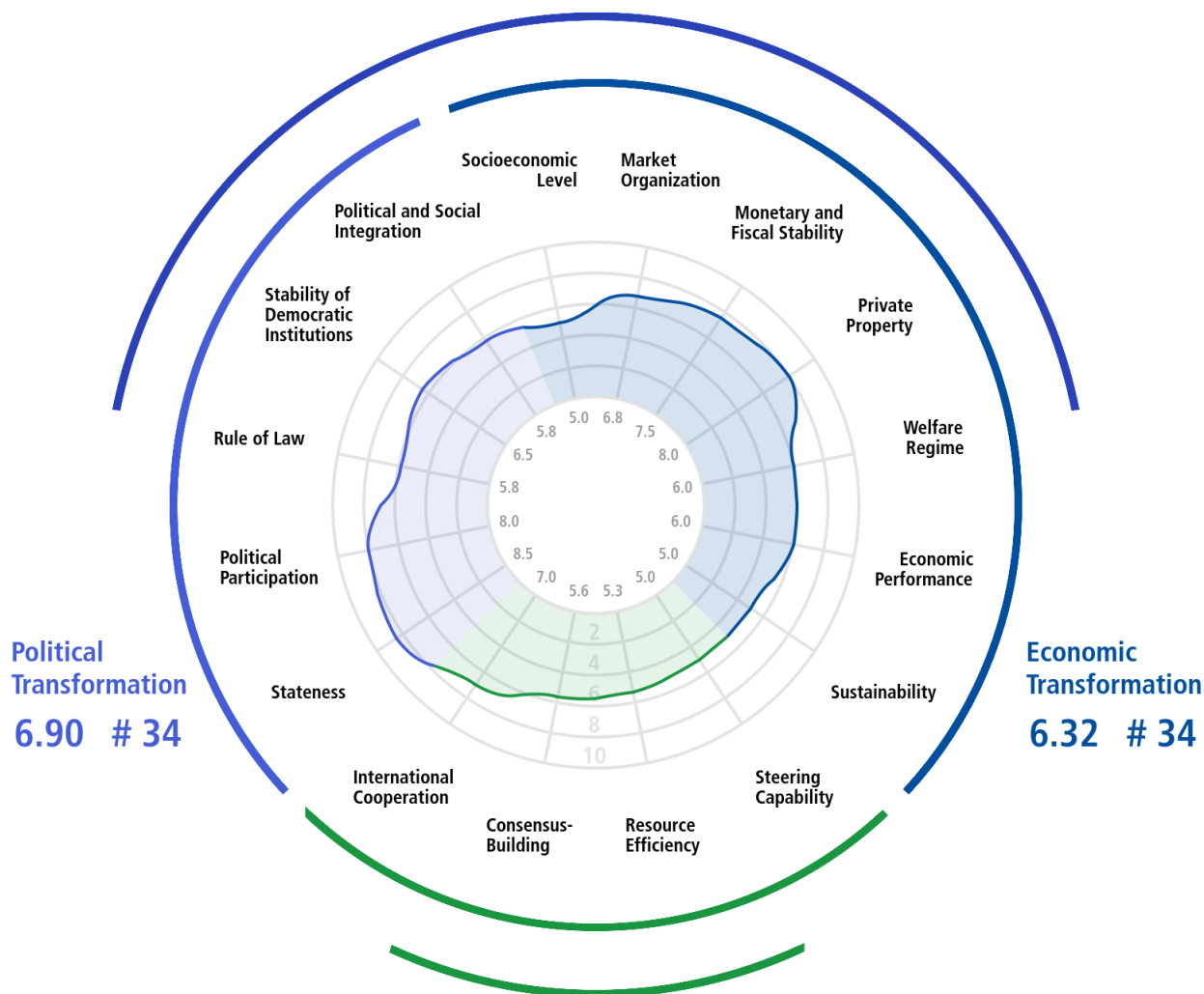


Armenia

Status Index

6.61 # 27

on 1-10 scale out of 137



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6.32 # 34

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on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. 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	2.8	HDI	0.759	GDP p.c., PPP \$	18942
Pop. growth ¹	% p.a.	-0.4	HDI rank of 189	85	Gini Index	27.9
Life expectancy	years	72.0	UN Education Index	0.742	Poverty ³	% 8.7
Urban population	%	63.6	Gender inequality ²	0.216	Aid per capita \$	58.0

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Since the war in 2020, Armenia has experienced almost uninterrupted turmoil in domestic politics. The president suddenly resigned in January 2022, and a new one was elected in March. In June 2021, snap parliamentary elections were held, during which numerous promises and initiatives were made by the incumbent government, including preparations for an “audit” of the constitution. Throughout this period, the parliamentary opposition frequently took to the streets, organizing anti-government protests and blocking roads in the capital city.

The opposition movement was galvanized again in November 2021, when Azerbaijan launched attacks on Armenian villages. In spring 2022, the Armenian government indicated it might relent to some of Baku’s demands, which formed a five-point list including the recognition of Nagorno-Karabakh as part of Azerbaijan. Prime Minister Nikol Pashinyan hinted that this provision might be acceptable on the condition that there were agreed-upon territorial integrity and security guarantees for the Armenians living in Karabakh. However, suspicions were raised by complaints that Prime Minister Pashinyan withheld key details about Armenia’s peace negotiations with Azerbaijan. Former President Ter-Petrosyan claimed that there was “no information about the ongoing negotiation processes. Only Pashinyan has that information, only he knows what Russia offers, what Türkiye offers, what the United States advises.”

Azerbaijan’s military attack in September 2022, together with the seizure of portions of Armenian border regions, as well as in the area of Nagorno-Karabakh, where Russia’s peacekeeping forces are deployed, violated a November 2020 cease-fire agreement, thereby exacerbating political polarization. The government’s response to Azerbaijan’s aggression has sparked public outrage, plunging Armenia into another crisis and jeopardizing its political stability. Armenia now faces critical challenges in defending its statehood.

Notwithstanding the ongoing conflict, the government has attempted to continue implementing its reform and development agenda, but the pace of this has noticeably slowed.

The economy has experienced strong momentum, driven by robust consumption and a surge in incomes, capital, business and labor. The immigration of Russian, Ukrainian and Belarusian IT experts has proved to be a significant asset for the country, contributing to substantial economic growth. However, sluggish developments in the industrial sector and changes in the financial system demonstrate that risks of instability remain. While robust growth is expected to continue in the short term, there are significant risks due to the ongoing Russian invasion of Ukraine and the subsequent Western sanctions on Russia, global financial tightening, the economic slowdown experienced by major trading partners, and high food and energy prices. Structural challenges also persist, including high unemployment, a weak business environment and low productivity growth.

History and Characteristics of Transformation

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

In 1998, Levon Ter-Petrosyan, Armenia's first president, resigned due to disagreements with the country's other leaders regarding the Armenian strategy for resolving the Nagorno-Karabakh conflict. Taking over as the country's president was Robert Kocharyan, who had previously served as prime minister (1992 – 1994) and president (1994 – 1997) of Nagorno-Karabakh.

A terrorist attack on October 27, 1999, left the key leaders of the country – including Prime Minister Vazgen Sargsyan and Speaker of Parliament Karen Demirchyan – as well as a number of deputies dead and the country devastated. Many believe that this event altered 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. Not least, due to an economic blockade by Türkiye and Azerbaijan, Armenia was forced to give away a number of strategic assets to Russia in a series of “equity for debt” swaps. Over time, Moscow's growing grip on the country's energy sector, the railroads, and telecommunications resulted in Armenia's overreliance on Russia, not only regarding security but also in economic terms, which finally led Armenia to enter the Eurasian Economic Union in January 2015.

Armenia's democratic transition has been hindered by a deterioration in human rights and democratic credentials, as well as endemic corruption and nepotism, impeding the development of an efficient public administration sector. The merger of business and politics led to an excessive concentration of power in the hands of a few individuals, resulting in the dominance of oligarchs and monopolies within the economy.

Armenia experienced its largest political crisis in 2008 when the opposition, led by former President Levon Ter-Petrosyan and Nikol Pashinyan, contested the outcome of the February 2008 presidential election. A government crackdown on protests resulted in the deaths of 10 individuals, with the leaders distancing themselves from the demonstrators. Pashinyan evaded security forces for several months. Opposition politicians were subsequently prosecuted, leading to the imprisonment of more than 100 individuals on political grounds.

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

The 2015 constitutional changes stipulated a transition from a semi-presidential to a parliamentary form of government. This was clearly an effort by the ruling party and its leader Serzh Sargsyan to consolidate power and maintain its grip on the government. The constitutional amendments also provided an opportunity for a single party to control both the executive and judiciary through a one-party legislature. The new constitution established safeguards for a parliamentary majority by implementing a bonus system for the allocation of mandates. However, further action is needed to embed these changes, such as the introduction of a new constitution or constitutional amendments.

Sargsyan's transition to the prime minister's office, following the completion of his second presidential term in April 2018, proved to be unsuccessful. The Velvet Revolution, led by former journalist and parliamentary opposition member Nikol Pashinyan, through popular protests, managed to oust the corrupt ruling elite in Armenia. These events brought about a new government that pledged significant domestic changes.

The 2018 Velvet Revolution in Armenia was a historic opportunity for democratic development in the country. However, the new government faced significant challenges. The former ruling kleptocratic elite possessed extensive financial and administrative resources, which provided formidable resistance to reforms and anti-corruption initiatives. Thus, the new leadership pointed to "the old elite's responsibility" for the shortcomings that arose soon after they assumed power in 2018. The reform agenda proved to be a difficult and divisive endeavor.

The reform agenda was put in the spotlight again in 2020 due to the COVID-19 pandemic and the Karabakh war, both of which had disastrous consequences for the country and weakened the government's legitimacy. These events deepened the polarization of society and forced the government to agree to snap parliamentary elections in 2021. However, contrary to many expectations, the elections saw the incumbents victorious and the political mandate of the Velvet Revolution reconfirmed.

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

The second Nagorno-Karabakh war in 2020, which ended with Armenia's defeat, triggered a profound political crisis in the country. It engendered a somber public mood and provoked widespread protests. Prime Minister Pashinyan came under intense criticism for the defeat, with opposition parties and former authorities demanding his resignation. To this day, this issue remains the primary focus of public discussions, with the old political elite exploiting it to undermine the current government.

The postwar reality in Armenia remains problematic, and Azerbaijan continues to try to exploit its upper hand and Armenia's weak statehood. Azerbaijan not only uses heavy-handed pressure against the Armenian population in the non-occupied part of Nagorno-Karabakh but also openly questions the very existence of Armenia (referring to an alleged West Azerbaijan). In September 2022, Azerbaijani forces launched a wide-ranging military assault on mainland Armenia and occupied several Armenian villages and strategically important geographic positions along the southern border. As a result of this attack, residents had to be evacuated, and the Armenian government lost its access to the occupied parts of Armenian territory.

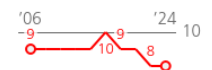
Armenia is a predominantly mono-ethnic country. There is consensus on issues of citizenship and the legitimacy of the nation-state. Ethnic minorities comprise less than 2% of the population. There is generally no ethnic division or discrimination against minorities.

According to a fifth report (2020) on the implementation of the Council of Europe Framework Convention for the Protection of National Minorities, all 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. The prime minister established a Council of National Minorities (and approved the composition of the council) on May 3, 2019. The council shall function under the chief adviser to

Question
Score

Monopoly on the
use of force

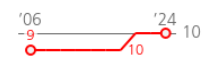
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1

State identity

10



1

the prime minister, and the responsibility for organizing the activities of the council shall rest with the Office of the Prime Minister. The Division for Ethnic Minorities and Religious Affairs of the Office of the Prime Minister organizes regular discussions with heads of the organizations representing minorities.

In October 2022, the government launched a new draft of the citizenship law. According to the draft, foreigners who invest \$150,000 in the country's economy will be able to obtain citizenship in a simplified manner. The government hopes that this will attract new investors and make a significant contribution to the economy. According to a public poll, an overwhelming 95% disapproved of this because respondents were concerned that Turks and Azeris would be able to become Armenian nationals. In response, the government indicated that it would develop the necessary safeguards to neutralize all risks.

Armenia is a secular state. However, the Christian faith has played a major, if not indispensable, role in the history and national identification of the Armenian people. The Armenian Apostolic Church has the legal status of the national church and enjoys privileges unavailable to other religious groups.

However, after the change of government in 2018, the Armenian Church has not displayed a visible influence on the political decision-making process. This despite the fact that in the postwar environment the Catholicos of the Armenian Apostolic Church have attempted to interfere in political life, openly demanding, for instance, the resignation of the prime minister and early parliamentary elections after the Karabakh war that broke out in 2020.

The administrative structures of the Republic of Armenia provide most basic public services throughout the country, but they are characterized by many shortcomings. Important basic services are guaranteed, such as access to a basic water source (100%), access to basic sanitation (93.9%) and access to electricity (100%).

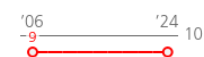
In recent years, a number of reforms have been initiated that have resulted in partial improvements. The promotion of a digital economy, better access to public services and banking, a renewal of public transport in Yerevan, and a modernization through digitalization of the government system can be counted as achievements of the last few years.

However, major challenges in the public administration structure of the country have not been overcome, such as low management efficiency, insufficient institutional capacity and low quality of services provided by government agencies. There is a lack of comprehensive and reliable regulatory impact assessments, of specially trained staff for legislative drafting, and a lack of institutional capacity within parliament to carry out core functions.

In addition, Armenia's political system has not been decentralized as promised, meaning local governments continue to have only limited autonomy. This includes limited local revenues, which leave the country's provinces and municipalities dependent on budget allocations from the central government.

No interference of religious dogmas

9



1

Basic administration

7



1

A government program for the period from 2021 to 2026 reiterated the importance of rectifying the above situation by improving the independence of the judiciary, properly implementing and improving anti-corruption legislation, advancing decentralization and not least reforming public administration. To that end, in 2022 the government approved the Public Administrative Reform Strategy. The strategy aims to enhance the efficiency of public administration by 2030, and its timeline is structured as follows: The first phase, from 2022 to 2024, targets the modernization of institutions and their functions through the elimination of shortcomings in all areas and the establishment of effective structures. The second phase, from 2025 to 2027, aims for systemic digital transformation in all strategic areas as a prerequisite to achieving so-called Government 4.0. The third phase, from 2028 to 2030, involves completing all reforms and achieving digital transformation in the public sector.

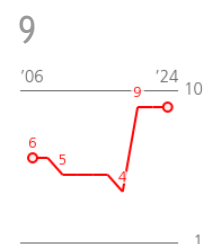
2 | Political Participation

Armenia's snap election in June 2021 was extraordinary in many ways: a record number of parties and blocs contested the ballot, including many representatives of the old regime. After a bitter campaign, the victory of the governing party, Civil Contract, was unexpected, especially in light of the blame attributed to them regarding the military defeat that had led to the early election. Voter turnout was approximately 50%, with some 2.6 million people eligible to vote. According to the Central Election Commission, Prime Minister Pashinyan's Civil Contract party won 53.9% of the vote. The electoral alliance of his top rival, former President Robert Kocharyan, was in a distant second place with 21%.

The election was being monitored by an ODIHR observer mission from the Organization for Security and Cooperation in Europe (OSCE), which assessed the voting as competitive and generally well-managed within a short timeframe. However, the ODIHR observers also noted that the elections were characterized by intense polarization and increasingly inflammatory rhetoric by the key contestants. According to the Independent Observer Public Alliance, and Armenia-based election watchdogs "The Choice is Yours" and "Akanates," there were a number of violations, including vote-buying and pressurizing employees or subordinates to vote for a particular party. These instances, however, were not considered to have significantly affected the election results. The major finding in various reports into the election was the need for further legislative improvements.

The ODIHR observer mission's media monitoring found that several media covered a wide range of contestants and organized debates that helped voters make an informed choice on election day. At the same time, the observers were concerned about the political affiliation of private broadcasters, who primarily favored the opposition. No incidents were documented in the registration process for opposition parties and candidates.

Free and fair elections



Despite overwhelming electoral support for the current government, the tense atmosphere in the run-up to the 2021 elections and the fierce electoral contest indicated that the government of Nikol Pashinyan does not have a free hand. Representatives of the old regime still wield some influence over the media and the judiciary, which have not yet been reformed.

The deep split among the political elites and the tense atmosphere continues to the present day, fueled not least by the (military) pressure from Azerbaijan, against which Armenia has no real safeguards. As a result, there has been a shift from democratic rhetoric and practices toward authoritarian practices in domestic politics, which corresponds to the decline of Pashinyan's popularity and increasing attacks by the old regime.

In this context, Pashinyan has become the one and only power broker in the country, which has effectively transformed the Armenian political system from a parliamentary one to one dominated by a prime minister. This poses serious problems relating to the role of parliament. The concentration of power in the hands of a charismatic prime minister and the narrow circle around him does not allow parliament to become a sufficiently independent political body. Hence, parliament exercises only limited control of the government and does not debate, let alone legislate on, any politically sensitive issue without Prime Minister Pashinyan's prior consent.

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

The law protects the right of the labor force to form and join independent labor unions, except for noncivilian personnel of the armed forces and law enforcement agencies. The law also provides for the right to strike, with the same exceptions, and permits collective bargaining.

On July 1, 2021, amendments to the labor code came into effect that revived the state oversight function of the Health and Labor Inspection Body (HLIB) to cover the full scope of labor legislation. These changes, as well as amendments to HLIB bylaws, allow the HLIB to act upon labor law violations based on written complaints.

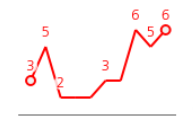
Since the 2018 Velvet Revolution, these constitutionally and legally enshrined rights have not only been written on paper but also observed in practice. Indeed, everyone is free to exercise the right to association and assembly. There are no restrictions in this regard. The government does not use intimidation, harassment or threats of retaliation to prevent citizens from joining civic groups.

However, there are some shortcomings. The 2021 CSO Meter Armenia Report expressed some concerns about a negative dynamic regarding the freedom of association. The 44-day war in Nagorno-Karabakh (called Artsakh in Armenia) and its outcome had a negative impact on the civil society environment. The report found several negative developments in the areas of freedom of speech and freedom of

Effective power to govern

6

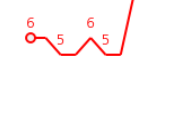
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Association / assembly rights

9

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assembly, as well as increased hate speech and smear campaigns against CSOs. According to the report, these campaigns were most probably initiated by representatives of the old regime, while the government took a self-defensive position and distanced itself from the CSO community.

There are also some positive developments, which include new regulations for greater transparency and competitiveness in the provision of state grants, new avenues for CSOs to represent the interests of people with disabilities in court and a raised threshold on the amount of state grants subject to auditing. Some burdensome issues for CSOs remain of concern, including the unequal treatment of CSOs compared with businesses in terms of registration and taxation, a regression in the practices of CSO engagement in decision-making, and weak protection of the right to privacy, particularly on digital platforms.

The constitution of Armenia guarantees freedom of expression. Chapter 2 is dedicated to Fundamental Human and Civil Rights and Freedoms, and Article 27 refers to freedom of expression and of the press.

Following the Velvet Revolution, the government of Armenia embarked on the implementation of a comprehensive and ambitious reform program aimed at strengthening the democratic culture of discussion. Since then, the media landscape has expanded, and independent online news sites in particular are prospering. Nevertheless, most broadcast and print media is still affiliated with major political and commercial interests, with many having notable links to the old regime.

The Nagorno-Karabakh war of 2020 dramatically changed Armenia's democracy-security nexus. Armenia's ambitious reforms were halted, and civil liberties were temporarily restricted, including media freedom and freedom of expression.

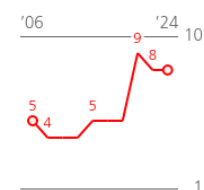
This remained temporary, however, and in a 2022 report by Reporters Without Borders Armenia fares relatively well, placing 51 out of 180 with a score of 68.97 (a significant increase since the 2021 report, in which it was 63 out of 180 with a score of 71.17).

One serious problem persists, namely that, in spite of the pluralistic environment, the media landscape remains heavily polarized, exacerbated by the 2020 war and the ensuing political crisis. These triggered, as a Human Rights Watch report in 2022 noted, "heated public debates, which often included inflammatory speech by members of parliament and other public officials." According to the report, the government tried to reign in these tendencies, "including by introducing legislative amendments, to tackle the spread of hateful and degrading speech."

Such efforts, however, also threatened the country's freedom of speech. In October 2021, the ruling Civil Contract party proposed amendments to the Law on Mass Media that would effectively ban the use of unidentified sources. The revisions alter the media law in several ways, including adding requirements for media outlets to submit financial reports and to disclose their ownership. But most notable was an amendment that would make media outlets liable for slander if they cite an unidentified source that is deemed to have defamed or insulted someone.

Freedom of expression

8



3 | Rule of Law

Changes made to the constitution under the old regime shifted executive power from the president to the prime minister. Along with an obedient legislature, the prime minister acquired excessive powers, which, even under the democratic conditions that have prevailed since 2018, need to be balanced. However, the principle of checks and balances and the separation of powers have failed to materialize.

In line with the constitution and after two election victories, the ruling party brought the executive and legislative branches under its control. The judiciary, formerly known to be de facto fully dependent on the executive, has not yet been fully reformed. In a murky way, it has been dominated by the opposition, emphasizing its independence from the government. Although the government advocated thorough *loustratzia* (vetting) of members of the judiciary, little progress has been made, and there is a lack of a legal framework and concept. There have been questionable appointments. For instance, in April 2021, the ruling party endorsed the candidacy of Gagik Jahangiryan as chairman of the Supreme Judicial Council. Jahangiryan had been accused of grave human rights abuses when serving as Armenia's chief military prosecutor between 1997 and 2006.

The division of power is further compromised by the virtual one-man show of the prime minister. This has also impacted parliament, whose lack of institutional capacity to carry out its core functions has contributed to the dominance of the executive.

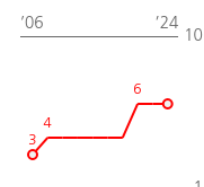
The Armenian judicial system operates in crisis mode. Originally an integral part of the old regime, the Pashinyan government is struggling in its approach to the judiciary, granting it independence on the one hand, yet also trying to ensure the judiciary does not derail government policy on behalf of the old regime. Finding this balance is a delicate act.

Strong tensions within and around the judiciary, inter alia connected with the influence of the former authorities on the judiciary, as well as a crisis relating to the Constitutional Court, have displayed the lack of substantive actions in the justice sector by the new authorities. The Constitutional Court is the most politicized body in Armenia, an institution that has legitimized all the elections rigged in the country's past. Judges famous for their predictable decisions in politically sensitive cases, including cases relating to the events of March 2008 and cases of expropriation, continue to hold their office. This state of affairs has enhanced the skeptical public attitude toward the judiciary.

To defuse tensions, the prime minister announced there would be a temporary block on appointments and retirements of court judges, which was prompted by the decision of a court to release former President Robert Kocharyan from pretrial detention during the criminal proceedings related to the events of March 2008.

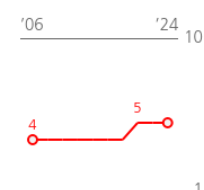
Separation of powers

6



Independent judiciary

5



The Strategy and Action Plan of Judicial and Legal Reforms of the Republic of Armenia (2019 – 2023) has not been properly implemented. Its objective, according to the prime minister, is to create a genuinely independent judiciary, not only independent from the ruling authorities but also from systemic corruption.

However, there have been cases of heavy-handed government intervention in the judicial system, including disciplinary proceedings initiated against unwanted judges and questionable nominations. On November 21, 2022, the Supreme Judicial Council chose Mnatsakan Martirosyan as a judge to investigate crimes of corruption. There were two candidates participating in the interview stage, with six votes in favor and three against. Many civil society organizations considered his election unacceptable and condemnable. He is regarded as a judge involved in high-profile political cases in which a number of political prisoners were convicted, including Alexander Arzumanyan, Nikol Pashinyan and others following the events of March 2008. The same judge was involved in the convictions of Arman Babajanyan (in 2006), editor-in-chief of the Zhamanak newspaper, and opposition figures Zhirayr Sefilyan (in 2007) and Gevorg Safaryan (in 2017).

To make headway on one of its most prominent election promises, the Pashinyan government has taken significant measures to improve the prosecution of office abuse. Immediately after assuming power, criminal cases were initiated, which targeted corruption by former government officials and their relatives, parliamentarians, and in a few instances, members of the judiciary. The government also launched cases against a number of current government officials.

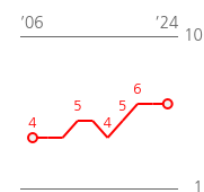
An important instrument has been the Law on Confiscation of Property of Illicit Origin (April 2020), the enforcement of which has been the responsibility of a special department in the General Prosecutor's Office since September 2020. According to Caucasus Watch, by August 2022 13 former officials had been sued for illegally acquired property (out of a total of 574 investigated people). The 13 lawsuits led Armenia's Prosecutor's Office to demand the confiscation of AMD 26.3 billion (approximately €53 million), 202 movable and immovable properties, and shares in 36 law firms, estimated to be worth AMD 49 billion (approximately €98 million).

However, despite these impressive successes, a key challenge to Armenia's anti-corruption efforts is that political declarations and laws are not properly implemented. The results of investigations and prosecutions of corruption crimes are very limited. Moreover, officeholders who are close to the government and supporters of the ruling party are rarely prosecuted. Clientelism and patronage still form part of Armenian political reality and the administrative structure, a situation that is compounded by petty corruption.

In summary, citizens and businesses still consider corruption a major problem and public awareness of the damages it causes is rising. Four years after the Velvet Revolution, fueled not least by widespread frustration over perceived government corruption, many Armenians continue to see corruption in many institutions.

Prosecution of
office abuse

6



The consequences of the 44-day war in Karabakh in 2020 and the ensuing political crisis in Armenia has still not been overcome. Being confronted with an existential threat from an external actor, the crisis reached new heights when, on September 13, 2022, Azerbaijan launched a large-scale attack on the territory of the Republic of Armenia, shelling civilians and civilian infrastructure along Armenia's south-eastern border. As in the case of the war in 2020, opposition forces once again called for the resignation of Prime Minister Pashinyan, alleging that he was unable to properly protect the border and the country's national interests. Demonstrators engaged in civil disobedience, blocking streets in the capital and setting up tents.

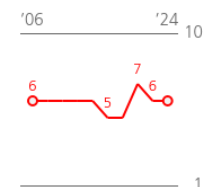
There were at least 250 arrests during these protests against the government and the prime minister, including members of parliament. According to various reports, the police used disproportionate force not only against demonstrators but also against journalists. According to the Union of Journalists of Armenia, law enforcement bodies used force to hinder the activities of many journalists and cameramen covering the events, grossly violating their rights. These events came on top of a new law passed in 2021 that criminalizes "grave insults" against officials, a new crime that has led to more than 260 criminal cases in 2022 alone.

Another serious human rights problem is physical violence against women, which is rooted in traditional social habits that assume a subordination of women, including acceptance of violence against female individuals. These social practices are reflected in legal shortcomings that still need to be rectified. Armenia has adopted a number of policies and strategies, including the National Action Plan for the Implementation of the Human Rights Strategy, with the specific objective of achieving gender equality through the empowerment of women and the combating of domestic violence. But to date, there are no comprehensive legal provisions for preventing violence or discrimination against women. Women generally do not have the same professional opportunities or wages as men, and employers often relegate them to more menial and lower-paying jobs.

Human rights violations also occur in other areas, such as torture by members of the security forces, harsh prison conditions, trafficking in persons, crimes involving violence or threats of violence targeting civil society activists and LGBTQ+ persons and the worst forms of child labor.

Civil rights

6



4 | Stability of Democratic Institutions

The 2021 snap parliamentary elections reaffirmed the broad public support enjoyed by the Pashinyan government and endorsed its pledge to continue its democratization of the country. However, there was increasing external pressure exerted by Azerbaijan and in particular its threat of renewed military aggression. This not only deepened political polarization within Armenia but also intensified the domestic crisis. In these circumstances, it was challenging for the government to operate efficiently, which had an adverse impact on the progress of reform in a number of areas.

One example is the parliament, which by and large operated in crisis mode during 2022. In July 2022, the ruling Civil Contract party voted to dismiss one of the parliament's deputy speakers affiliated with the main opposition Hayastan (Armenia Alliance) bloc. Subsequently, 35 deputies of the 107-seat parliament representing Hayastan and the other parliamentary opposition bloc, Pativ Unem (I Have Honor), boycotted the parliamentary sessions ahead of daily rallies aimed at toppling Prime Minister Pashinyan. They failed to force this outcome, but opposition deputies continued their boycott in the following months, despite government threats to strip them of their seats. Most deputies returned to the parliament floor on November 15, 2022.

Political polarization also spilled over into the treatment of the – largely unreformed – judicial system. This provoked the interest of the U.S. State Department, which in its annual country report on human rights in the world expressed concerns as to the Armenian government's influence on judges, citing cases of disciplinary proceedings and criminal prosecution against unwanted judges.

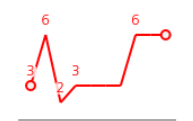
It is no surprise that the crisis also affected the ruling party. In December 2021, Yerevan mayor Hayk Marutyan of the Civil Contract party was ousted and replaced by councilor Hrachya Sargsyan, who is seen as a close ally of Prime Minister Pashinyan. The reason for Marutyan's removal was his distancing from Pashinyan after the defeat in the Karabakh war in 2020. In September 2022, Tigran Avinyan, another close ally of Prime Minister Pashinyan and who served as deputy prime minister between 2018 and 2021, was put forward as Yerevan's deputy mayor at a city council meeting. He plans to run as Civil Contract's candidate in Yerevan's next mayoral elections, slated for late September or early October 2023.

The municipal elections in Vanadzor, Armenia's third-largest city, are another case of intense fighting between law enforcement agencies. In Vanadzor, the ruling Civil Contract party lost to an electoral bloc led by Mamikon Aslanyan, who had headed the city since 2016. Yet in a striking development, Aslanyan was arrested one day before he was due to take office on charges of abuse of power and fraud. Just days before, Aram Harutyunyan, a local politician in the town of Vardenis, was arrested, prompting city residents to block a major regional road.

Performance of democratic institutions

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Aslanyan and his allies rejected the charges as politically motivated. And Harutyunyan's electoral bloc, United Vardenis, is considered close to the Armenia Alliance, the main opposition bloc led by former President Robert Kocharyan (the main antagonist to Pashinyan and a close confidant of Vladimir Putin). However, in both cases criminal proceedings had started well before the elections, and one can safely assume that both had decided to run in order to lend weight to the notion of politically motivated repression.

In their public pronouncements, all political blocs, political parties and interest groups are committed to strengthening democratic institutions. However, in reality this is rarely the case. On the one hand, some actors, such as the Armenia Alliance, the main opposition bloc in parliament, are mainstays of the old regime, which was anything but democratic. On the other hand, all relevant political actors are said to be fighting for their own selfish interests rather than strengthening democratic institutions. Only in civil society can one find organizations genuinely striving for a vibrant democratic climate and functioning institutions.

To further compound problems, in the wake of the Armenian defeat in the war in Nagorno-Karabakh, domestic politics became ever more deeply polarized. The deep divide between political blocs, which after 2018 had been temporarily superseded by the broad-based revolutionary mood in the country, has given rise to a level of intolerance that has transformed the public discourse from an arena for constructive deliberations into one of rhetorical fistfights and political positioning.

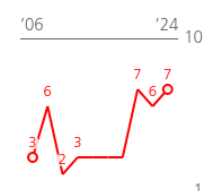
5 | Political and Social Integration

One of the largest problems of the Armenian political landscape is its weak culture of party politics, which has led to fragmentation and a high level of volatility. This is reflected in the high number of parties officially registered with the Ministry of Justice – 100 as of June 2021. Political affiliations are rarely based on shared political goals and convictions, a phenomenon fostered by the pervasive practice of forming electoral alliances. Aimed at increasing the number of seats won in an election, these alliances do not prioritize political platforms. One of the consequences is that political competition, or rather confrontation, is not aimed at developing and presenting competing political options but at nurturing the whims of individual leaders. This weakness is rooted in seven decades of Soviet (a)political culture. The enduring experience with Soviet one-party politics has meant a democratic party landscape has struggled to emerge.

An amended Law on Political Parties, which was adopted by an overwhelming majority in parliament (99-1), came into force in January 2021. The amendments were positively assessed by the OSCE Office for Democratic Institutions and Human Rights (ODIHR) and by the Council of Europe's Venice Commission. The main

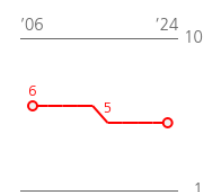
Commitment to democratic institutions

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Party system

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objective of the changes was to improve the competitive political climate and create a system in which parties were more accountable as well as less unprincipled and egocentric. The aim is to institutionalize political parties and cultivate a multiparty system to encourage ideological pluralism.

The law also planned to enhance the transparency of party finances, improve tools for public control over party funds and reduce corruption. In addition, the National Assembly adopted a new legal act regulating party finances in July 2022, which came into force on November 15, 2022. It regulates donations to parties, party spending, financial support from the state budget, sanctions, the establishment of guidelines for reporting and the audit of financial activities.

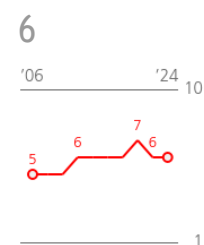
There are many interest groups in Armenia, and there is a relatively high level of civic activism. Rallies have become frequent since the Velvet Revolution. Yerevan experiences almost daily expressions of dissatisfaction and protest. More often than not, such protests articulate peculiar and relatively minor issues, unsurprisingly with little impact. This has led to the impression of and some complaints about the government being insufficiently responsive to CSO demands.

However, there are some structural peculiarities derived from the fact that the current government emerged from a successful revolution in 2018. Hence, several members of civil society moved to government positions, entered parliament as members of the leading party or occupied other leadership positions. Consequently, the political interests and demands of civil society representatives came to coincide with the political interests of those who were now in power. Therefore, those representatives of interest groups believed that the new government already represented their interests, and so there was no need to further pressure the authorities.

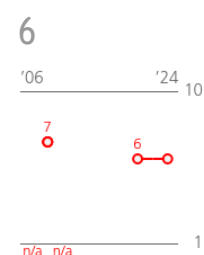
Although the Pashinyan government has declared its openness to engaging with civil society and has sought ways to institutionalize these interactions, very little progress has been made. This is partly the result of the preoccupation of the country at large with the external threat posed by Azerbaijan. Partly, it is also due to the fact that communication between representatives of CSOs and the government tends to be through informal channels.

Traditional organizations, such as trade unions, are either nonexistent or very weak. Due to the current sensitive security situation in the country, the popularity of the democratic model has been relegated to the backstage. In these circumstances, national security is the core issue. This is reflected in surveys conducted by the Caucasus Barometer, the annual household survey covering social economic issues and political attitudes conducted by the Armenian branch of the Caucasus Research Resource Center (CRRC). The last survey was conducted between December 2021 and February 2022. The surveys found that the percentage of respondents who agreed that the country was heading in the right direction increased dramatically from 8% in 2017 to 67% in 2019, before falling substantially to 17% in 2021.

Interest groups



Approval of democracy



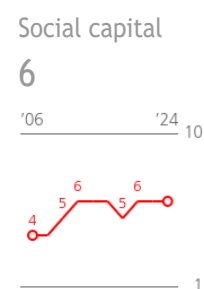
These fluctuating attitudes reflect frustrated expectations of the electorate and, in particular, the detrimental outcome of the war in late 2020. However, the general approval of democracy by the people remains less affected. Hence, the 2021/22 survey found that 50% of respondents agreed with the statement that “Democracy is preferable to any other kind of government,” while 21% approved the opposite opinion that “In some circumstances, a non-democratic government can be preferable.”

Trust in the Armenian democratic institutions, however, varies and, in some cases, displays some volatility. When it comes to the expression of trust, three institutions stand out: the ombudsperson (81.0% trust versus 10.7% distrust), the armed forces (81.0% trust versus 9.0% distrust) and the European Union (53.0% trust versus 25.8% distrust). Whereas the approval of the armed forces has been relatively constant, approval of the European Union has recorded a gradual rise since 2015, and the ombudsperson saw a steep rise in trust over the last two years (possibly owing to the active commitment and efforts of former human rights defender Arman Tatoyan after the 2020 war in and around Karabakh).

Whereas the appreciation of political parties by the public at large is almost equally split between pro and con, other institutions such as religious institutions, the police, the president and the court system tend to generate less trust. Those institutions trusted the least are the executive government (13.0% trust versus 71.9% distrust), parliament (13.0% trust versus 71.9% distrust) and the media (9.0% trust versus 72.0% distrust). Yet in all these cases, results have swung wildly between surveys conducted in different years.

Polls on the level of trust among the Armenian populace show a fairly contradictory result, as demonstrated by the last issue (2021/22) of the CRRC Caucasus Barometer with a sample of 1639 respondents. In response to the statement “most people in Armenia can be trusted” and one “can’t be too careful in dealing with people” only 15% agreed that most people could be trusted, 23% remained neutral and 62% stated that one couldn’t be too careful. This distribution has proven relatively stable over time. However, the statement “There are many people I can trust completely” met with approval from 45% of respondents, while 34% more or less approved it, and the statement was rejected by only 21%.

The devastating war in Nagorno-Karabakh had quite an impact on social capital in Armenia. One consequence has been the polarization of society, undermining trust among the population, which manifests itself in widespread hate speech on social media. Yet during the 44-day war, people mobilized their support for refugees and soldiers by displaying a high level of mutual solidarity and social connections, empathy, and voluntary initiatives. However, this bonding dynamic waned after the defeat in the war. While many support government policies, there remain many outspokenly critical voices. These differences spill over into interpersonal relations to some extent.



II. Economic Transformation

6 | Level of Socioeconomic Development

The poverty rate in Armenia at the end of 2021 averaged 26.5%, of which 1.5% were classified as extremely poor (compared to 27% and 0.7%, respectively in 2020). This information is highlighted in the joint report of the Statistical Committee of the Republic of Armenia and the World Bank: “Social Snapshot and Poverty in Armenia.”

According to new data from the World Bank as of April 2023, the Russian invasion of Ukraine has had a positive impact on the Armenian economy. The significant influx of Russian IT specialists has contributed to Armenia experiencing a GDP per capita growth of 12.6% in 2022, the highest in the region. Based on this strong economic performance, World Bank analysts have arrived at varying estimates and suggest that the poverty rate may have declined from 51.7% in 2021 to 41.8% in 2022, and project it to decrease further to 38% in 2023. However, they do identify concerns regarding the impact of the Russian invasion of Ukraine, specifically in terms of high inflationary pressures.

The UNDP-Human Development Report 2022 categorizes Armenia as having a high level of human development, with a score of 0.759 (rank 85). According to UNDP data, Armenia has a low Gender Inequality Indicator (GII), with a score of 0.216 in 2021, indicating significant inequality between women and men. In terms of income distribution, the Gini index for 2020 reveals a score of 25.2, suggesting a relatively equal distribution of income.

As for the pervasive labor migration, according to World Bank projections for 2023, net migration is expected to be at least -5,000 annually, while the birth rate is projected to remain below the global average.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	13619.3	12641.7	13861.4	19502.8
GDP growth	%	7.6	-7.2	5.7	12.6
Inflation (CPI)	%	1.4	1.2	7.2	8.6
Unemployment	%	12.2	12.2	12.7	12.6

Question
Score

Socioeconomic
barriers

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Economic indicators		2019	2020	2021	2022
Foreign direct investment	% of GDP	0.7	0.5	2.6	5.1
Export growth	%	16.0	-33.5	16.6	54.4
Import growth	%	11.6	-31.5	12.9	33.8
Current account balance	\$ M	-961.1	-505.4	-483.0	151.0
Public debt	% of GDP	53.7	67.4	63.4	49.2
External debt	\$ M	11884.5	12600.0	13818.5	-
Total debt service	\$ M	2072.4	1966.0	2050.7	-
Net lending/borrowing	% of GDP	-0.5	-5.2	-4.4	-
Tax revenue	% of GDP	22.3	21.9	22.0	-
Government consumption	% of GDP	12.6	15.0	15.8	14.7
Public education spending	% of GDP	2.6	2.7	2.8	2.5
Public health spending	% of GDP	1.4	2.4	-	-
R&D expenditure	% of GDP	0.2	0.2	0.2	-
Military expenditure	% of GDP	4.8	5.0	4.5	4.3

Sources (as of December 2023): 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

The government formed after the 2021 parliamentary elections aims to develop a competitive and inclusive economy based on export-oriented and high-tech industries as well as improved environmental standards. The five-year program (2021 – 2026) prioritizes good governance and the rule of law, tackling corruption, fostering open market competition, human capital development and cultivating stronger links with the Armenian diaspora to stimulate economic growth.

However, a long-standing problem in Armenia is the overall lack of market-based competition, which is the result of vested interests exercising considerable sway over broad swaths of the economy. According to the International Trade Administration, despite a legal framework for foreign investment and straightforward procedures for starting a business, at least on paper, market entry is hindered in practice by lingering corruption, weak law enforcement, and collusion between business interests and politically connected individuals.

Market organization

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Although the government has undertaken a number of steps to reduce corruption, some government interventions – though perhaps well-intentioned – have had the effect of propping up market incumbents to the disadvantage of newcomers, as observed by the U.S. trade representative. The Armenian market is very price-sensitive and depends heavily on global and regional economic developments due to its high level of imports. However, within the country, prices are largely determined by market actors: demand and supply.

The Armenian Statistical Committee reports a slight decrease in the employment rate in the informal sector, from 38% in 2019 to 35.5% in 2021, which is nevertheless still fairly high.

Over the last few years, the Armenian government has introduced several policy measures to increase market competition and remove informal barriers to market entry, particularly for small- and medium-sized enterprises.

The Armenian legislation governing the promotion of competition was improved in 2021. The law “On Protection of Economic Competition” has undergone comprehensive amendments. The government has substantiated some key concepts. Procedural improvements have been made for delivering conclusions and notifications of potentially anti-competitive behavior.

The improvement outlined above brought about institutional changes as well. The State Commission for the Protection of Economic Competition, established in 2001, has undergone a transformation. It has been renamed the Competition Protection Commission and is granted the authority to enforce competition law across all sectors with few exceptions. The commission now has the power to investigate any anti-competitive behavior in collaboration with Armenia’s investigative bodies.

Specific attention is paid to further regulation and cooperation between the commission and the central bank. The OECD assessed these changes and their implementation as positive and effective overall but noticed that the commission often faces challenges in balancing competition concerns on one hand, and financial as well as public sector stability on the other.

The U.S. State Department also praises the improvements and anti-competitive efforts of the government overall, but draws attention to the fact that a number of issues remain problematic. Several business actors have reported that broader reforms concerning, in particular, the judicial sphere and the tax regime will be necessary to create a transparent, fair and predictable business climate.

Competition policy

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Armenia is a relatively open country. Its trade-weighted average tariff rate is 5.7%, but several non-tariff measures are in effect. The country joined the WTO in 2003 and the Eurasian Economic Union in 2015. The latter required compliance with EAEU regulations after the transition period ended. This involved standardization according to EAEU guidelines, as well as the implementation of common – and in certain cases, higher – tariffs.

The government of Armenia officially welcomes foreign investment. The Ministry of Economy is the primary government body responsible for developing investment policy in Armenia. The Armenian National Interests Fund and Investment Support Center (Enterprise Armenia) are responsible for attracting and facilitating foreign direct investment.

According to a 2022 report from the U.S. State Department, the country has achieved respectable rankings on some global indices measuring its business climate. Armenia's investment and trade policy is relatively open. Foreign companies are entitled by law to the same treatment as Armenian companies. Many international companies have established branches or subsidiaries in Armenia, aiming to take advantage of the country's pool of qualified specialists and its access to the Eurasian Economic Union (EAEU).

Despite improvements that have increased Armenia's attractiveness as an investment destination, a report on this issue indicates that numerous problems remain, notably the lack of a truly level playing field in terms of a transparent, fair and predictable business climate. A number of foreign investors have raised concerns about the quality of dialogue between the private sector and the government, lamenting in particular the inability of government officials to resolve problems in an expeditious manner.

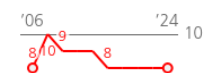
There are also concerns over the lack of an independent and strong judiciary, which undermines the official assurances of equal treatment and transparency and reduces access to effective recourse in commercial disputes. Policies and laws are also, to some extent, undermined by the lack of capacity and professionalism in key institutions.

The banking system is relatively well-developed, well-regulated and largely consistent with the Basel Core Principles. The central bank of Armenia (CBA) is the sole and primary regulator. The banking system is the largest component of the financial market, accounting for 88% of the total assets of the system. There are 17 commercial banks operating in Armenia, and all commercial banks currently participate in the currency exchange trading of Armenia.

Data on Armenia's public finances and debt obligations are transparent, and the Ministry of Finance, as well as the CBA, publish regular online reports. The CBA provides monthly updates on the capital adequacy ratio of Armenian banks. In January 2023, the Armenian capital adequacy ratio overall stood at 19.9% compared with the previous update of 20.3% in December 2022. The nonperforming loan ratio stood at 2.8% in January 2023, compared with 2.8% in the previous month.

Liberalization of foreign trade

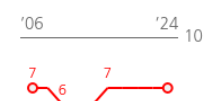
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Banking system

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According to the CBA, the indicators of Armenia's banking sector will remain relatively positive into the start of 2023. Possible developments in 2023 will depend on many factors, including geopolitical ones.

The 17 Armenia-based commercial banks earned AMD 187.8 billion in profits in the first nine months of 2022, a remarkable increase of AMD 121.5 billion (or 183.3%) compared to the same period in 2021, according to the Union of Banks of Armenia (UBA). As of late September 2022, the total capital of all 17 banks stood at AMD 1.2 trillion, representing a year-on-year growth of 30%. The value of assets reached AMD 7.7 trillion, representing a growth of 9.4%, while total liabilities grew by 6.2% to reach AMD 6.5 trillion. Lending increased by 2.4% to AMD 4.1 trillion, and deposits experienced an 11.4% increase, reaching AMD 4.5 trillion. This positive trend can be attributed to the migration of over 50,000 Russian professionals, particularly IT specialists, who have chosen Armenia as their new place of residence since the start of Russia's invasion of Ukraine.

8 | Monetary and fiscal stability

According to ratings agency Fitch, the large influx of primarily Russian, Ukrainian and Belarusian migrants, and the resultant boost in demand, contributed to a rapid rise in inflation, reaching an 11-year high of 10.3% in June 2022, well above the central bank's 4% (+/- 1.5%) target. In addition to the capital inflow and the demand-driven factors, the acceleration of inflation has also been driven by rising prices in the international food and energy markets.

The strength of the Armenian dram (up 16% versus the dollar in the period between February and August 2022) acts as a restraint on price growth to some extent, given the very high dependence on food imports. The CBA has raised its rates by a cumulative 175 basis points in 2022 to 10% as of mid-September 2022, and Fitch expects it to reduce rates only gradually, to 8.5% by the end of 2023.

Driven by the Russian invasion of Ukraine, significant inflationary pressure and an increase in volatility in the domestic financial market have both been observed. Due to the stringent monetary policy implemented by the CBA, inflation gradually decreased to 8.3% by the end of 2022. Similarly, the 12-month core inflation followed a similar trend throughout the year, reaching 9.5% as the year came to a close.

In its November 2022 press release on negotiations over a precautionary standby agreement, the International Monetary Fund praised Armenia's economic and attendant fiscal performance. Due to global and regional developments, it was forecasted that Armenia was on track to achieve a GDP growth of about 11% in 2022 (in actuality, it was 12.6%), partly driven by the Russian invasion of Ukraine, which triggered significant inflows of external income, capital and labor into the country. Fiscal overperformance, with the budget deficit narrowing from 4.6% of GDP in 2021 to 2.2% in 2022, along with the appreciation of the dram, has contributed to a

Monetary stability

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Fiscal stability

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significant decline in Armenia's public debt. It fell to 46.7% of GDP by the end of 2022, down from 60.3% of GDP in 2021. This decrease followed a significant increase from 50.1% in 2019 to 63.5% in 2020. The share of foreign currency debt amounted to 72.6% in 2021.

According to the IMF, in keeping with Armenia's fiscal rules, fiscal policy is expected to keep the debt on a declining path. This will allow for targeted support for the economy in 2023, while further strengthening fiscal resilience. Over the medium term, the creation of greater fiscal space will require revenue-enhancing tax policy measures and efforts to strengthen revenue administration. Additionally, improvements in government spending efficiency, the public investment management process, and fiscal risk management are also necessary.

9 | Private Property

Armenia has a robust legislative and regulatory framework to safeguard property rights. The law ensures protection for secured interests in property and establishes a foundational structure for secured lending, collateral and pledges. As stated in Armenia's constitution, foreign citizens are not permitted to own land but have the option to enter into long-term leases.

In the 2023 Index of Economic Freedom compiled by the Heritage Foundation, the country's property rights score was slightly below the world average at 50.3. The same applies to Armenia's judicial effectiveness score (31.5), whereas its government integrity score is above the world average at 51.6. Hence, the ability of individuals to accumulate private property – secured by clear laws that are fully enforced by the state – still requires further progress.

Since the post-Soviet transition, private business has been considered an integral part of the Armenian economy and an indispensable engine of growth. However, for the majority of the time, it has also been subject to kleptocratic incursions by members of the previous regimes and viewed as an asset for misappropriation. A major change brought by the new government following the Velvet Revolution was the 2020 Law on Confiscation of Illegal Property, which outlined proceedings for confiscating illegally obtained property from individuals indicted on criminal charges, whether they are proven guilty or not.

Under the new law, if an individual is indicted for a crime related to corruption and law enforcement agencies discover a difference of AMD 25 million (\$50,000) or more between their declared income over time (from any legal source, including gambling) and the total value of the property they own, then a civil case can be opened. However, the prosecutor's office cannot arbitrarily investigate the income and property differences of any citizen. It must be justified by, for example, the subject's involvement in corruption cases. Officials of the current or previous governments may be implicated if intelligence provides sufficient evidence of misconduct.



In 2022, the government began to fulfill its promise: the state prosecutor's office filed 13 lawsuits seeking the confiscation of property worth more than \$100 million in total, alleging that it was acquired through corrupt means. The campaign raises some suspicion, given that most of the targets are former senior officials from the previous regime. Those implicated include Aghvan Hovsepian, the former chief prosecutor; Gagik Beglaryan, the former minister of transport and communications; Vachagan Ghazaryan, the former head of presidential security; and Seyran Ohanyan, the former minister of defense and current leader of the parliamentary opposition.

Going after these former officials in such a manner may create the impression that private property is not adequately protected in Armenia. The fact that the prosecutions began during a politically sensitive period – when numerous representatives of the former regime had instigated protests against the government – has raised concerns regarding the motivations behind the campaign. Additionally, there are some concerns that an excessively enthusiastic endeavor to confiscate property may deter foreign businesses from investing in Armenia. However, for many, these prosecutions represent a vital stride toward restoring justice following the looting of the preceding decade.

A further issue left unaddressed is the pervasive weakness of the judicial system. Armenia lacks a commercial court; all disputes involving ownership of property or commercial matters are resolved by litigants in courts of general jurisdiction, which handle both civil and criminal cases. Courts that handle civil matters may be overwhelmed by the volume of cases and are frequently perceived by the public as corrupt.

10 | Welfare Regime

In 2021, the Ministry of Labor and Social Affairs launched a review, with the support of UNICEF, to invite a wide range of stakeholders for consultation and the development of labor and social protection projects. Consequently, the Armenian government initiated a new program (2021 – 2026) to improve the social protection system.

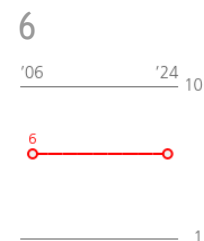
However, there is no unified vision regarding the field of labor and social protection, as highlighted by the twin crises of COVID-19 and the Karabakh war. The development of a vision is very important because Armenia has faced multiple shocks in recent years that revealed the acute need to enhance the adaptability and response mechanisms of the social protection system to meet the needs of vulnerable people. For instance, the country has to take care of large numbers of refugees from Nagorno-Karabakh. According to the World Food Programme, as of December 2021, nearly 27,000 displaced people were in need of humanitarian assistance.

The Armenia Development Programme, proposed by the United Nations Development Programme (2021 – 2025, DP/DCP/ARM/4), observes significant gaps in financing, effective coverage, and the adequacy of benefits and social services. The document notes that the social welfare system is associated with high exclusion errors; a total of 60% of the most deprived and poorest households do not receive any form of social assistance. The fragmented administration of various cash benefits, social services and employment services further compounds coverage gaps. Moreover, the system undergoes near-constant changes and reforms, which brings further complications.

However, it should be mentioned that, in terms of coverage, some areas are very successful. Maternity cash benefits, disability social benefits and pensions, for example, were raised during the reporting period in line with the improvement in budget funds. In 2022, the government adopted new regulations covering maternity and child benefits. Starting January 1, 2023, in addition to rural parents who are on maternity leave, nonworking urban mothers will also receive benefits for the care of a child under two years. For example, if the child was born on or after January 1, 2023, and the mother is not working, then instead of the current AMD 28,600 per month, the benefit payment will be AMD 31,600. Rural parents on maternity leave will receive AMD 69,100 per month, and if they return to work, they will receive AMD 63,300.

However, some legal loopholes exist in the Armenian legal code, and many employers exploit them to deny the maternity benefits guaranteed by law. The labor code establishes different categories of labor contracts, and only one category – employment contracts – is recognized as legal employment, providing full benefits to workers, including paid maternity leave. Other types of contracts, even if they entail full-time employment and fully taxed salaries, do not qualify for these benefits. As for funding, Armenia's social protection system operates on a manageable basis entirely financed by public funds.

Social safety nets



To ensure the establishment of de facto equality between men and women, in July 2022, the government adopted a new strategy on judicial and legal reforms with a time horizon from 2022 to 2026. The strategy aims to eliminate gender inequalities and create equal opportunities for women and men in all spheres of public life, including government, the socioeconomic sphere, education and science, and health care.

The government has taken practical steps to integrate more women into political institutions. The recent parliamentary elections in 2021 resulted in 34% representation of women in parliament. In 2022, Armenia witnessed the election of its first woman governor and woman prosecutor. Steps were also taken to involve women in the law enforcement system, with quotas for women patrols.

However, gender stereotyping in Armenia continues to be the primary obstacle to the equality of women and men and a cause for gender-based violence. Despite political measures, the lack of gender equality remains a serious problem in Armenia.

There are no restrictions on access to education, where the male-to-female enrollment ratio is equal. However, women face significant difficulties in finding employment, as leading positions are typically held by men. There is also discrimination against women in the labor market. For instance, numerous employers refuse to hire women who are about to get married or have recently married, citing concerns that they may become pregnant and consequently be unable to continue working.

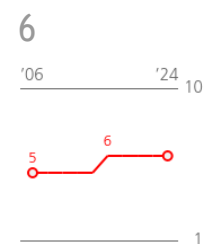
A number of Armenian governments have signed and ratified most of the conventions, treaties and other instruments of the United Nations, Council of Europe, Organization for Security and Cooperation in Europe, and European Union. However, in practice, the country has not fully met its human rights commitments regarding sexual orientation and gender identity. Individuals who identify as gay, lesbian, bisexual or transgender face significant challenges in attaining equality and protecting their human rights, both on a personal and organizational basis.

11 | Economic Performance

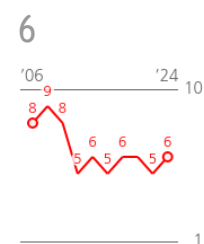
Economically, Armenia clearly benefited from the consequences of Russia's full-scale war against Ukraine. In geostrategic terms, however, it raised the risks for the country, which became the major preoccupation of the government but may have a less measurable impact on economic performance.

The Fitch ratings agency, in its annual 2022 report on Armenia, noted several positive factors. These include a strong per capita income, favorable governance and business environment indicators, as well as a robust macroeconomic and fiscal policy framework supported by the IMF. However, the report also highlighted certain negative aspects. Specifically, it pointed out a significant proportion of public debt denominated in foreign currency, relatively weak external finances and geostrategic risks.

Equal opportunity



Output strength



Indeed, the war and the Western sanctions on Russia have triggered a large influx of Russian, Ukrainian and Belarusian citizens into Armenia, with the total number rising 515% year over year in the first half of 2022. Concurrently, money transfers from Russia to Armenia rose by 200%, boosting personal consumption, whereas the export performance, in spite of the country's narrow export base, particularly to Russia, indicated a creative use of sanctions loopholes.

In the context of these developments, the economic growth rate in 2022 exceeded all forecasts and reached 12.6%. While industry performed less well and in fact experienced a slight decline, it was primarily the strong performance of the service sector (including IT) that generated the headline growth rate.

By the end of 2022, there were 701,451 officially registered employees in Armenia. The employment level exceeded 50%. At the same time, the unemployment rate decreased from over 15% in previous years to approximately 12% by mid-2022, to slightly increase again to around 13% by January 2023.

Foreign direct investment increased significantly in 2022 by 36% (from January to September), reaching \$708.2 million overall. Russia (still) has the largest share of FDI inflow at 66.9%. However, considering that the sharp rise of FDI inflows happened at the beginning of Russia's invasion of Ukraine, it can be assumed that this FDI accompanied Russian migrants to a large degree.

12 | Sustainability

Armenia's energy system depends primarily on natural gas, nuclear power and hydroelectricity. Natural gas is by far the largest contributor to total energy consumption. The problem here is that Armenia depends on imports to meet most of its energy needs, particularly natural gas from the Russian Federation.

Due to these circumstances, different governments have adopted numerous agenda and strategy papers to encourage self-reliance and, in particular, to increase the independence of the country's energy supply. Armenia has great potential for solar energy, and several development projects have been initiated, such as the popularization and mass production of autonomous energy developers, through the adoption of favorable legal and fiscal provisions.

Armenia has made considerable progress in enhancing the country's regional energy market integration. The country has signed and ratified the Comprehensive and Enhanced Partnership Agreement (CEPA) with the European Union that entered into force in March 2021 and includes a timetable for the approximation of Armenian laws and regulations to relevant EU laws over the following years (and by 2029 at the latest). Armenia is also a member of the Eurasian Economic Union (EAEU), which aims to establish a common EAEU gas and electricity market by 2025. Implementing these ambitious objectives will require close cooperation and coordination between different institutions to achieve regulatory consistency and eliminate potential contradictions and conflicts.

Environmental
policy

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In January 2021, the government approved a new Energy Sector Development Strategic Program that sets the path for the sector's transition through 2040. According to this strategy, the government's priorities in the energy sector are: the maximum use of the country's potential for renewable energy and energy efficiency; the construction of a new nuclear power plant; the construction of a "North-South Corridor" by increasing power transmission links between Armenia and Georgia and between Armenia and Iran; and the gradual liberalization of the domestic electricity market. To date, there have been no assessments of the implementation of these goals.

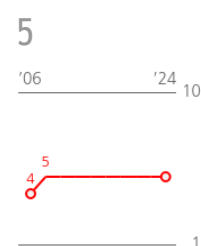
Armenia's constitution mandates free primary and secondary education; Article 39 of Armenia's constitution grants all citizens access to education. Armenia is fortunate to have a strong educational and scientific basis from the Soviet era. This has contributed to a literacy rate of 99.8%. Unfortunately, after the collapse of the Soviet Union, much of this infrastructure was not properly maintained or updated. As a result, universities for a long time used outdated curricula and textbooks and operated on dilapidated premises. After joining the Bologna Declaration in 2005, Armenia undertook tremendous reform efforts to promote the quality of education.

The gross enrollment ratio in the latest available year (2019) was 91.8 for primary education, 86.5 for secondary education and 51.5 for tertiary education. The male-to-female enrollment ratio was 1.0. Government expenditure on education for 2021 was 2.8% of GDP according to UNESCO data, which is slightly higher than in the previous year. Investment in research and development was 2.1% of GDP for 2020, which is fairly high.

However, Armenia's score in the U.N. Education Index for 2021 was 0.742, a fairly constant measure over previous years and at the lower end of the countries in the region.

In recent years, Armenia has emerged as something of a regional hub for information and communication technology, relying on its human capital and being very much encouraged by the migration of a great number of Russian IT specialists. Notable intellectual and economic nodes of excellence, such as the Engineering City, have been designed and implemented to connect Armenia to global value chains in the engineering space. Developing the Armenian National Engineering Laboratory (ANEL) for all universities engaged in training engineers in Armenia was the first successful step in this regard.

Education policy /
R&D



Governance

I. Level of Difficulty

Armenia is a landlocked and mountainous country, situated in a particularly demanding environment with two hostile neighbors and closed borders to the east and west. The COVID-19 pandemic between 2019 and 2021, the full-scale war in Nagorno-Karabakh in 2020, and the subsequent military incursions by Azerbaijan as part of Baku's ongoing power politics seriously exacerbated an already challenging situation.

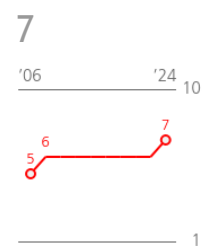
In security terms, Armenia has been confronted with an existential threat since 2020. There is little relief in sight. Russia, eager to maintain its military presence in the region, is seeking to balance its support of Yerevan while not fulfilling its security treaty obligations, and Baku, with which it has intensified its energy and security cooperation in the wake of Moscow's invasion of Ukraine. The EU has become more active as a conflict mediator in the region recently, but Brussels too has vested energy interests, which puts it in a bind vis-à-vis Baku. Türkiye has remained a close and indispensable partner of Azerbaijan.

The truly fundamental task for Armenia of uplifting the socioeconomic status of the country has been neglected. According to the Armenian Statistical Committee in 2021, poverty has remained pronounced and structurally ingrained at 26.5% (with extreme poverty at 1.5%). Besides the geostrategic burden described above, other challenges include severe infrastructural deficiencies, a high level of political and economic dependence on another country, namely Russia, and the low diversification of the economy.

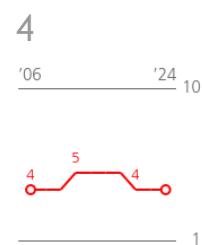
Civil society in Armenia has a fairly strong tradition. It played an important role during and immediately after the Velvet Revolution. Moreover, social ties and mutual assistance have proven key factors in keeping the country running under the most difficult of circumstances during the crises of the COVID-19 pandemic and the war in Karabakh.

The post-revolutionary environment in Armenia, however, generated new challenges for civil society. Although the Pashinyan government considers itself to be meeting basic and long-standing demands by civil society and although many activists entered government and parliament after the revolution, in the tense conditions of the lost Karabakh war and the tremendous extra-parliamentary pressure exerted on the authorities, relations between the government and NGOs have suffered to some degree. Groups associated with Armenia's former regime also contributed to strained relations.

Structural constraints



Civil society traditions



Both sides aim to delegitimize Armenia's civil society. The delegitimization is orchestrated by declamatory, manipulative attacks intended to compromise the image of independent and outspoken members of civil society. One example is the substantial pressure on eco-activists and NGOs in this field, who have been targeted by mining companies. The activists and NGOs publicly criticize the government in an open letter for failing to protect the rights of citizens and activists.

The defeat in the war in Nagorno-Karabakh in 2020 and the continuous pressure exerted by Azerbaijan have become an almost all-encompassing concern and dominant preoccupation of the political class in Armenia and in society at large. On the one hand, it has contributed to the high level of polarization and the deep split into different political camps, mostly along the lines of the old and the new regime. On the other, the jointly experienced external threat contributed to a higher level of solidarity, empathy and mutual help within society.

Although the new opposition representing the old regime bears the main responsibility for unforgiving and radicalized rhetoric, which frequently degenerates into hate speech, the ruling party has not shied away from aggressive posturing. Hence, it has become popular to portray the political scene in Armenia in a simplified dichotomy, positing the forces of the government against the forces of the opposition caught in an existential struggle. Yet Pashinyan himself has frequently rejected swift and radical punishments, as demanded by his supporters, arguing that Armenia as a democracy should adhere to freedom of speech and that prohibitions should be conducted in full compliance with legal procedures.

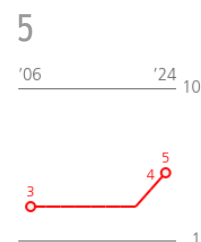
II. Governance Performance

14 | Steering Capability

The government has continued to pursue reform in all policy areas, as promised in the leading party's election program. Each ministry is tasked with presenting strategic development and action plans. The duration is set until 2030. However, the drafting of these strategies seems slow, eclectic, and fragmented in terms of interconnectedness and prioritization.

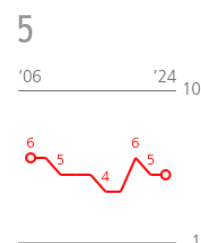
Lifting the blockades by Türkiye and Azerbaijan and forming a more favorable external environment are core priorities of Armenia's foreign policy. Furthermore, deterrence and neutralization of military threats, as well as ensuring the security of the people living in Nagorno Karabakh (Artsakh), are crucial objectives. These tasks have gained urgency following the 2020 war, but the government faces numerous domestic hurdles and external pressures that hinder the achievement of these goals.

Conflict intensity



Question Score

Prioritization



Taking into consideration the fact that the potential for long-term economic growth is significantly conditioned by the level of economic diversity, the government considers diversification to be a priority in economic policy. This entails improving the business and investment climate and increasing economic competitiveness. Another priority goal is the development of a green economy to ensure readiness for the new low-carbon energy reality. The country's economy experienced an upturn last year, primarily as a byproduct of the large immigration wave generated by Russia's invasion of Ukraine.

Creating a secure environment for citizens and enhancing the human rights situation in the country are central priorities of the government. The government has adopted numerous programs in this regard and is collaborating with external stakeholders to implement these goals. However, its efforts are overshadowed by significant security challenges. Additionally, there are instances in which the government delays necessary reforms in favor of short-term political gains or imposes inadequate and, at times, peculiar regulations. A pertinent example of this is a new bill on trade and services, which mandates that catering establishments only provide salt shakers upon request from visitors starting in 2022. Failure to comply may result in a fine of AMD 30,000 (approximately \$60).

The effectiveness of the government in implementing its strategic priorities leaves much to be desired. Specific reforms, strategic programs and action plans with timetables have only been recently formulated and finalized. As a result, only the first steps have been taken, and it is too early to make a useful assessment of progress.

In addition, devising strategies and their implementation have been hampered by the centralization of political decision-making controlled by the prime minister; devolution of responsibilities and administrative decentralization could lead to more efficient governance in Armenia. But in this regard, one has to be aware of the problem of inertia within the administration. There has been no reform in civil and community service; processes have not been optimized, and salaries are far from competitive.

Finally, the highly polarized political environment and the all-encompassing external threat consume much attention and encourage short-term political maneuvering.

The strategic goal of developing a green economy is an example of inconsistent implementation. The government has not yet managed to reduce Armenia's dependence on natural gas supplies from Russia in any way. On the contrary, Azerbaijan's capturing of many previously Armenian-occupied territories surrounding Nagorno-Karabakh (about two-thirds of the territory that has not been taken back by Azerbaijan to date) has put the security of the natural gas supply further at risk.

Implementation

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Another controversial decision was made in the Jermuk ecological water region. Armenia's Ministry of Economy, the Eurasian Development Bank and Lydian Armenia, a subsidiary of the U.S.-British Lydian International, signed a memorandum on February 22, 2022 to complete construction work at the Amulsar gold mine and purchase the necessary equipment (an investment of \$250 million). The investors granted the Armenian government a 12.5% stake in the project in return for its pledge to manage the risks. To justify the decision, officials claim that the Armenian budget revenues from the development of the Amulsar deposit are calculated to be around AMD 40 billion per year. However, environmental NGOs called out the hasty government decision on exploiting the mine, noting the large environmental risks of the project, especially with regard to the country's water resources.

There are many meetings, seminars and joint efforts between the Armenian government and international counterparts or international experts. Virtually every ministry and many other state or community agencies are engaged in this practice. There are also many initiatives led by consulting groups.

However, local academia and experts would argue that their expertise is not properly included in the policymaking process. The government is very selective when it comes to new projects. Critics argue that projects are only adopted when they promise to score political points for the government or otherwise serve its interests. Whether these projects are important for the country is seen as only secondary in these considerations.

15 | Resource Efficiency

The government makes efficient use of only some of the available human, financial and organizational resources. It has, for example, assumed a skeptical view of those experts who worked with the previous governments, yet it has not systematically excluded them. Due to the remarkable financial resources in the hands of the old elite, they have been able to recruit many of those experts and analysts with many years of experience, naturally advancing the elite's agenda as the political opposition. In their place, the new government turned to new people and, in many cases, civil society activists with little experience in government administration.

Key political posts were given to Prime Minister Pashinyan's close acquaintances. He appointed new heads of central offices, local administration institutions and law enforcement agencies. There are many examples of inefficient use of personnel resources, such as the choice of prosecutors or judges at the Constitutional Court.

A case in point is the former Human Rights Defender Aram Tatoyan, who was highly commended for his work but became hostile to the Pashinyan administration. Tatoyan repeatedly criticized Pashinian's fiery rhetoric during the campaign for the snap parliamentary elections in June 2021, when the prime minister pledged to "purge" the state bureaucracy and wage "political vendettas" against local government officials supporting the opposition.

Policy learning

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Efficient use of assets

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As a result, the government approved in March 2021 an amendment to the law governing the role of human rights defender so that the proposed budget for the office will be at the discretion of the government. With this new financial instrument, the government is able to directly interfere in the activities of the human rights defender: it can determine the number of employees, the number of visits to different institutions, provinces and border zones, the number of appeals to be considered, and the obtaining of technical equipment.

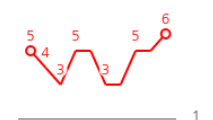
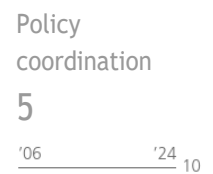
After pressure from the government, Tatoyan left office in 2022. For a noticeable period, the government was unable to find a competent replacement. In February 2022, Kristine Grigoryan, who served as a senior specialist at the Armenian Ministry of Justice from 2015 to 2018, was elected as the human rights defender. However, during her term of office, she essentially avoided criticizing or questioning any government policies. After less than a year in office, she resigned quite unexpectedly.

The Velvet Revolution of 2018 opened the way for a new government to work on a comprehensive reform agenda based on democracy and good governance. There were strategic programs oriented toward consolidating and institutionalizing democracy, the rule of law and good governance, as well as promoting a functioning market economy with a favorable business environment and investment climate.

However, two problems hampered a coherent and coordinated pursuit of the government's "mega-goals" as Prime Minister Pashinyan presented the ambitious transformation agenda. Armenia faced a very challenging year in 2020 due to the COVID-19 pandemic and the war in Nagorno-Karabakh, which created a humanitarian crisis and undermined political stability. The country is still reeling from these internal and external threats. Policy coordination is further hindered by a weak tradition of horizontal (across agencies) as well as vertical cooperation (between the national, regional and local levels). Hence, proper mechanisms are seriously underdeveloped, and the crisis mode in which the country finds itself serves only to exacerbate these shortcomings.

A central goal of those involved in the Velvet Revolution in 2018 was to get rid of the corrupt system of the old regime and establish justice, which placed high demands on the new authorities. And indeed, the new government announced an uncompromising fight against corruption and initiated an ambitious program of anti-corruption reforms, which included forming new anti-corruption institutions and making the existing institutional infrastructure operational, such as the Corruption Prevention Commission, which had been established in 2017.

One such new institution is the Anti-Corruption Court, which was approved in April 2021 by Armenia's National Assembly. In the summer of 2022, the court went operational. According to Armenia's judicial code, the Anti-Corruption Court shall have at least 15 judges of whom at least 10 must be specialized in criminal corruption crime and at least five in civil anti-corruption. However, some reservations were expressed, such as whether a specialized court was needed at all. Pending corruption



cases at the Anti-Corruption Court have already been investigated by other courts prior to its creation. Furthermore, civil and anti-corruption courts will investigate cases based on the civil and civil procedure codes, and these two courts may, possibly, interpret the same legal norms differently and deliver decisions that may contradict each other. Another contentious issue was the professional background and experience of the judges. Some were said to lack adequate experience.

The Corruption Prevention Commission, created in 2017 and consisting of five members, is in charge of asset and income declarations, conflicts of interest and the possible violation of ethics rules covering all officials (including those members of the ruling party and “supporters of the government”). During the past three years, the commission has identified hundreds of cases of corruption, violations of ethical norms, including cases regarding state procurement. Conflicts of interest cases have already been opened, some of which have even led to criminal proceedings.

The “Law on Confiscation of Property of Illicit Origin” of April 2020 led to the establishment in September 2020 of a special department for the confiscation of illegally acquired property at the General Prosecutor’s Office. Since then, it has prosecuted a total of 13 former officials and confiscated substantial amounts of illegal property.

However, progress in fighting corruption has noticeably slowed, owing to stiff resistance by the culprits as well as the overwhelming external challenge facing Armenia and the threat of renewed war.

The new Minister of Justice Grigor Minasyan announced in December 2022 that the government plans to adopt a new anti-corruption strategy in 2023. This will be a communication strategy related to the fight against corruption to ensure continuity of public awareness. In addition, the government plans to enact new legislative regulations for ensuring integrity and implement several actions demanded by international obligations, notably by the Group of States against Corruption (GRECO) and the Organization for Economic Cooperation and Development (OECD).

16 | Consensus-Building

Democratic principles, the rule of law and human rights are outwardly supported by all significant political actors. However, deep conflicts over the strategy to pursue persist.

The political landscape is highly polarized. It constantly revolves around the struggle between the old and the new elite, and it is no longer clear who exactly the new elite is. The current government has been in office since 2018 and still blames the opposition for its lack of success, giving rise to something akin to the old patronage system.

Consensus on goals

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The opposition forces are predominantly aligned with the old regime but nevertheless highly divided. Although they all demanded Pashinyan's resignation and a new stringent security strategy, the opposition was unable to unite against him in the 2021 parliamentary election campaign (although this is unlikely to have altered the election outcome). There is no unified programmatic platform on the part of the various opposition forces. However, it is certain that quite a few of them, notably Robert Kocharyan, the head of the biggest opposition bloc Armenia Alliance, maintain close relations with the Kremlin. This, in addition to their previous policies, speaks volumes about their democratic credentials.

The market economy and the reduction of corruption are recognized by most political actors as core virtues of the government's modernization program.

The Pashinyan administration has made significant progress in reducing corruption and establishing new anti-corruption institutions. However, these efforts primarily targeted politically and economically influential individuals associated with the previous regime, raising doubts about the administration's commitment to a genuine and contemporary market economy.

While the government has successfully pushed through some notable reforms, and companies uniformly appreciate the improved ease of doing business, businesses continue to complain about regulatory processes and the general inefficiency of government bureaucracy.

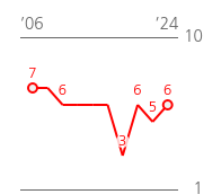
After the 2018 Velvet Revolution the new government has clearly embarked on a course of democratic reform. But it has been facing increasingly stiff resistance from well-entrenched representatives of the old regime. The latter had accumulated enormous financial resources and still held influential positions in the media and the judiciary, enabling them to resist democratic and anti-corruption changes that aim to dissolve old structures.

Against the backdrop of an imminent external threat, this struggle has intensified since 2020/21, leading to a deep polarization of the Armenian polity and prompting the administration to occasionally resort to an authoritarian leadership style in order to deter the opposition from taking to the streets and threatening to overthrow the government.

In these conditions, punitive measures have been applied not only against the fundamentalists and decidedly anti-democratic opposition but occasionally against forces aligned in principle with the reformers in government. This has even led the former president, Levon Ter-Petrosyan, who is considered to be Pashinyan's spiritual father, to publicly take a stance against Pashinyan. But as the June 2021 parliamentary elections show, even in the most difficult circumstances, the reformers could withstand and have – for the time being – prevailed.

Anti-democratic actors

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After the defeat in the Karabakh war in 2020, the government suffered a loss of legitimacy. Its legitimacy was somewhat restored when the ruling Civil Contract party scored a decisive win in the early parliamentary elections in June 2021. Yet even this win has not helped to establish a broad public consensus in order to depolarize structural conflicts and/or prevent society from being characterized by division.

Neither the hardcore old regime opposition nor the new authorities give the impression of seriously trying to overcome cleavage-based conflicts because these are the best instruments to score political points. Rather, they are caught in a mutual blame game. Hence, the opposition blames the prime minister as the supreme commander for the defeat in 2020, who is countering that he cannot share responsibility for the obstinate attitude of the previous regime in dealing with the conflict in Nagorno-Karabakh or for its neglect of the defeated armed forces.

This perpetual conflict between the people of the former regime and the current authorities exacerbates the polarization of the country. In September 2022, the former president, Levon Ter-Petrosyan, who shaped Pashinyan's political career, launched an attempt to initiate a political dialogue between all forces, the ruling and the opposition parties, as well as the Catholicos of All Armenians, Garegin II. The goal of the initiative was to create a new stage for open communication in order to discuss highly relevant questions about Armenian security as well as the political fate of Nagorno-Karabakh (Artsakh in Armenia). Unfortunately, the initiative was fruitless.

Experts and civil society related expertise were frequently used in the immediate period following the Velvet Revolution in 2018. Yet after the war in 2020 and in the wake of the postwar political crisis, the government has become increasingly restrained in its deliberations with civil society actors as it faces broad and quasi-violent calls for its resignation. As a result, those civil society actors who have taken to the streets and have expressed a critical attitude toward the government have felt systematically excluded. The fact that the government has preferred to exclusively work with those actors who share its political convictions and support the overall policy line can be viewed as a sign of favoritism.

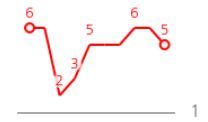
This became obvious during the Armenian Forum for Democracy organized by the Union of Informed Citizens in Armenia along with the U.S.-based watchdog Freedom House in May 2022. Officially, it was meant to gather “a diverse group of stakeholders – including Armenian legislators, government officials, the prime minister, ambassadors, and members of Armenian and global civil society,” to discuss ongoing challenges. However, in reality, that group was not as broad or diverse, since Armenian opposition MPs, critical journalists and some NGOs were not admitted. When the opposition deputies nevertheless tried to enter the conference hall at the Armenia Marriott Hotel, the head of the State Guard Service refused to admit them, arguing that they were not on the guest list.

Relations between the prime minister and the media are somewhat strained: he has not had a spokesperson for a year and meets very rarely with journalists.

Cleavage /
conflict
management

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Public
consultation

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It is very difficult to assess the current reconciliation dynamics in the country. It is obvious, especially as reflected in social networks, that Armenian society is in a deep crisis and traumatized. The post-revolutionary solidarity and euphoria have waned, and the 2020 war, the COVID-19 pandemic and the territorial losses to Azerbaijan combined to create a depressed mood overall and have led to a preoccupation with meeting these existential challenges.

With external threats occupying almost all attention, the issue of reconciliation has been overshadowed. This definitely concerns the country's Soviet past and its inevitably strained, yet indispensable, relations with Russia. But it also concerns dealing with the old regime deposed in the Velvet Revolution of 2018. After the revolution, the new government had promised to adopt a transitional justice approach to dealing with past crimes. This has led to the prosecution of ex-President Robert Kocharyan and a number of other officials who were charged with violently quelling the protests in March 2008 after the presidential elections. But this process of transitional justice has stalled, and Kocharyan has returned to frontline politics.

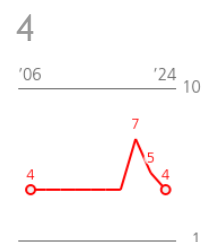
17 | International Cooperation

Since the issues of external security and threats to the very existence of the Armenian state have taken center stage in the past two years, international support is highly sought after by Armenia and has become a most contentious issue. Having faced a rather lenient and passive Russian attitude in matters of conflict resolution in Nagorno-Karabakh and, moreover, in Russia's reaction to constant Azeri provocations and transgressions, Prime Minister Pashinyan has repeatedly reached out to Western partners.

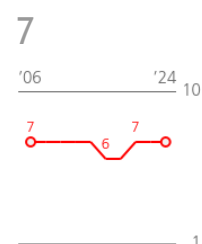
In this context, the European Union has become a prominent mediator and accepted honest broker, initiating several rounds of talks between Pashinyan and President Aliyev of Azerbaijan in Brussels. Yet only the contours of a possible peace accord have been negotiated to date. A more tangible move on the part of the European Union, favoring Yerevan and raising eyebrows in Baku, has been the EU observer mission instated along the border with Azerbaijan. The first was approved on October 17, 2022 and consisted of approximately 40 EU observers for two months of monitoring. In January 2023, an extended version was approved; a new long-term, two-year mission that will consist of 100 civilian monitors plus support staff. This looks miniscule compared to the nominally 2000-strong Russian peacekeeping force. However, compared to the tiny OSCE mission of a handful of people who, for more than two decades, observed the border between the two countries, it shows a clear commitment on the part of the European Union and represents a noticeable diplomatic achievement of the Armenian government.

Russian authorities reacted to this mission with demonstrative displeasure, especially as this move coincided with increasingly strained relations between Yerevan and the Russian-led military alliance CSTO, of which Armenia is a member (Armenia even held the chairmanship in 2022). Having viewed the Velvet Revolution in 2018 with some suspicion as another unwelcome regime change detrimental to its interests, the

Reconciliation



Effective use of support



increasing EU presence in Armenia is considered by Russia to be a deliberate collusion to push Russia back and possibly out of the region. The international arrest warrant for Putin issued in March 2023 over the invasion of Ukraine has added to the tensions between Moscow and Yerevan; Russia has warned Armenia against ratifying the International Criminal Court's founding treaty.

These events occurred against the backdrop of the Comprehensive and Enhanced Partnership Agreement (CEPA), which was signed on November 24, 2017 by then-President Sargsyan. After ratification by all EU member states, the CEPA came into force on March 1, 2021 and provides assistance to Armenia for strengthening cooperation in all areas of mutual interest. Its effective implementation will strengthen democracy and human rights while also creating a better investment environment. Its implementation in these fields, however, has been overshadowed by security concerns, and therefore the effectiveness of EU support for the reform program is hard to assess.

In general, the Armenian government is eager to design strategies in conjunction with international partners, all the more when these are rewarded with financial incentives. On June 17, 2020, the Council of Europe, jointly with the Armenian government, launched the Action Plan for Armenia (2019 – 2022) to support the Armenian government's efforts to “reinforce human rights, ensure justice, combat threats to the rule of law, and promote democratic governance.”

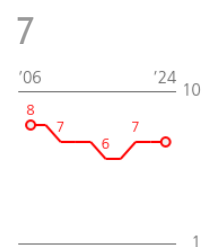
USAID operated its Armenia Support Initiative from August 2019 until February 2022 and reported positive results, in particular in promoting e-governance reforms, improving the government's coordination of strategic communication, and supporting administrative bodies and community life across the country, with a specific focus on the southern Armenian regions.

The defeat in the 2020 war and the subsequent military encounters with Azerbaijan left Armenians traumatized and feeling vulnerable as never before. In a 2022 poll conducted by the U.S.-based International Republican Institute, 54% of respondents named national security their biggest concern. All other issues, such as being committed to the climate agreement, have been superseded by this existential challenge.

This is a genuine challenge to a (revolutionary) government whose primary mandate and vision was a fundamental internal overhaul. It was this mission that secured the high international credibility of the Armenian authorities. But these expectations did not materialize, and major democratic reforms are yet to be delivered.

Currently, everything in Armenia is a matter of security, and Prime Minister Pashinyan personally takes high risks in his efforts to achieve peace. On September 14, 2022, Pashinyan presented the risk in graphic terms: “We want to sign a paper, as a result of which we will be criticized, scolded and called traitors.” Despite facing stiff domestic resistance, an obstinate negotiator in Baku, and suspicious observers in Moscow, other international actors have welcomed his efforts as credible and courageous advances.

Credibility



The steps Pashinyan took in 2022 were indeed revolutionary and high-risk. And he did so in spite of constant pressure from Baku, be it the military incursion in September 2022, or the ongoing blockade of the Lachin corridor linking Armenia with Nagorno-Karabakh by alleged ecological activists from Azerbaijan.

In April 2022, Pashinyan first hinted that Armenia would be ready to recognize the territorial integrity of Azerbaijan, as had been requested by Azerbaijan as a precondition for starting negotiations on a peace treaty. In November, he suggested signing a framework agreement with Azerbaijan on the basis of reciprocal recognition of territorial integrity and sovereignty (which implied a consensual border delimitation and a withdrawal of Azeri forces from a number of advanced positions it had occupied since 2020).

But Pashinyan insisted on security guarantees for the Armenian population living in Nagorno-Karabakh, which Baku refused to grant, claiming it to be a purely internal matter for Azerbaijan. Hence, Pashinyan insisted on an internationally visible conversation to take place between representatives of Nagorno-Karabakh and Azerbaijan. On February 16, 2023, Armenia presented Azerbaijan (and the OSCE Minsk Group of mediators: the United States, France and Russia) with a detailed full peace treaty.

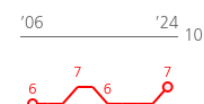
However, the credibility of the Armenian government notwithstanding, the conflict with Azerbaijan is far from being solved. The single most important thing that would help relieve Armenia's insecurity would be Azerbaijan easing the pressure and moving to a language of cooperation and constructive conflict resolution.

An astute observer of the region, Thomas de Waal, gave in early 2023 the following assessment concerning Armenia's prospects: "There are some bleak scenarios for how 2023 could end: more violence with Azerbaijan, pressure from Russia and domestic political turmoil. There are also rosier ones: strengthened relations with the EU, progress in normalizing relations with Türkiye, and a framework agreement with Baku that begins to resolve a decades-old conflict, opens borders, and consolidates the sovereignty of Armenia and Azerbaijan."

Which one of the two will eventually materialize depends only to a limited degree on the Armenian government, which, however, is doing a lot to turn the trajectory into promising territory. One direction concerns Türkiye, the most important supporter of Azerbaijan and the neighbor who maintains a closed border with Armenia. The February 6, 2023 earthquake in Türkiye allowed Yerevan to speed up the process of rapprochement: for the first time in almost 30 years, the border was opened to get an Armenian humanitarian convoy to the earthquake zone. Armenia had experienced a devastating earthquake in 1988, which claimed at least 25,000 lives in northern Armenia. Türkiye's envoy for negotiations with Armenia publicly welcomed the aid, and Armenian Foreign Minister Ararat Mirzoyan then traveled to Türkiye, in a possible prelude to a resumption of the football diplomacy that began in 2008 but then dissipated under pressure from Azerbaijan.

Regional
cooperation

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Another border issue, touched upon in the 2020 cease-fire agreement and currently posing a stumbling block in negotiations, is the introduction of free travel to and from the Azeri exclave of Nakhchivan. Baku insists on the extraterritorial Zangezur corridor through Armenian territory, which, for understandable reasons, Yerevan flatly rejects, offering instead the opening and unblocking of roads for everybody.

This contentious issue is only one of many, and despite Pashinyan acknowledging Azerbaijan's territorial integrity, these issues prevent the conclusion of a peace treaty. Since 2022, the EU has gained greater visibility and a more pronounced profile in mediating between the two capitals, certainly at the expense of Russia, which has lost much clout in Armenia owing to its invasion of Ukraine. There has been public criticism of Russia, demonstrative distancing from Moscow and its military alliance (CSTO) by the government, and public anti-Russia rallies have occurred on an almost daily basis since late 2022.

Since the CSTO abstained from supporting its member Armenia against the military aggression of Azerbaijan in September 2022 and since the Russian peacekeepers barely reacted to the (month-long and ongoing) blockade of the Lachin Corridor starting in December 2022, trust in Russia as an indispensable security provider has rapidly waned. Hence, Armenia not only refused to sign the concluding declaration after the regular CSTO summit held in November 2022 in Yerevan, but it also scrapped plans to host CSTO drills in January 2023.

Looking around the region, only Iran and Georgia provide a measure of relief, the former being close to Armenia and in conflict with Azerbaijan, the latter being on favorable terms with both neighbors. These two countries are strategically important, for the passage of goods, energy deliveries, agriculture and water resources.

Strategic Outlook

The ambitious domestic reform agenda of the current government was somewhat hindered by the ongoing external challenge to Armenia's existence as a nation. This challenge was exemplified by Baku's claims that Armenia was illegitimately occupying "Western Azerbaijan," coupled with frequent military incursions of varying scales. As a result, progress in areas like checks and balances, judiciary and media reform, and devolution of power has been inconsistent at best.

The political future of Prime Minister Pashinyan is likely to be shaped not just by frustrated expectations but also by the resolution of conflicts with Azerbaijan. This includes, in addition to Nagorno-Karabakh, defining borders and transit arrangements involving Azerbaijan, Nakhchivan, Türkiye, Iran and Georgia. The Armenian government has shown some flexibility recently but has not disclosed any details in this regard. The Armenian public has grown weary and is increasingly inclined to accept compromise on the issue of Nagorno-Karabakh.

The region is currently undergoing a significant geopolitical transformation, posing tangible challenges for Armenia's government as it navigates this new environment. Türkiye is a pivotal factor; a peaceful agreement with Azerbaijan is to some extent contingent on the evolving relationship between Yerevan and Ankara. The situation around 2010 serves as an example, highlighting the interconnectedness of reconciliation with Türkiye and harmonious relations with Azerbaijan.

Efforts to enhance ties are following positive steps, such as Armenia permitting Türkiye and Azerbaijan to use its airspace. The Armenian government has introduced a five-year plan prioritizing the normalization of relations with Ankara.

Consequently, Armenia is fundamentally reshaping its foreign policy stance. This shift will inevitably impact Russia's role and the Yerevan-Moscow relationship. While Russia's influence is declining, it still possesses the potential to impede the advancement of Armenian-Azerbaijani and Armenian-Turkish relations. Russia's ability to tightly steer Armenia's foreign policy relied on Armenia's political isolation, and this dynamic could potentially change significantly. Moscow's position is unlikely to remain static; it may need to acknowledge changes in the South Caucasus, relinquishing exclusive control. Other major actors, like Türkiye, could gain additional influence in the region.

Given these geopolitical shifts, Armenia's government must continue to strive for a well-balanced foreign policy strategy and articulate clear strategic objectives concerning its key partners. Throughout the reporting period, this endeavor has proven to be a delicate balancing act.