

Armenia Gap Analysis

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Summary

Introduction. Armenia's progress in its transition from communism to a market-based democracy is assessed by: (1) providing an overview of economic and democratic reform progress in the twenty-nine countries in the Eastern Europe and Eurasia (E&E) region, followed by a more detailed analysis of: (2) democracy and governance; (3) economic reforms; and (4) macroeconomic performance, including integration with and dependence on Russia, energy security, and trends in agriculture and micro, small and medium-sized firms (SME). A final section highlights key common themes that emerged from discussions during Gap Analysis presentations in Armenia, Ukraine, and Moldova, held from March 16-25, 2016.

Economic and Democratic Reform Overview. Relative to E&E graduate country standards, economic and democratic reforms in Armenia lag considerably, and most notably in democratic reforms. Among the seven E&E Eurasian countries, Armenia's reform progress is better than the norm, particularly in economic reforms.

From 1998 to 2008, economic reforms advanced notably in Armenia alongside significant backsliding in democratic reforms. Since the 2008-2009 global financial crisis, however, the gap between economic and democratic reforms in Armenia has largely stabilized, with economic reforms much more advanced than democratization, and with essentially no change on balance in either reform dimension from 2008 to 2015.

Democratic reforms and governance. Armenia's democratic reform path has resembled that of the E&E Eurasian countries overall for most transition years; i.e., its change paralleled E&E Eurasia change albeit at a more advanced level of democratization from 1992 to 2010. Since 2010, Armenia's democratization stagnation has contrasted with overall backsliding across most of E&E Eurasia.

What may be most striking about Armenia's democratic reform profile is the large gap between a relatively advanced civil society and the rest of the democratization components. Another unusual characteristic is that the electoral process in Armenia is among the lagging indicators (along with independent media and governance); it is most often a leading democratization indicator in E&E, alongside civil society. Governance and media have backslid the most between the 1996 and 2015 time period (for which data are available), though independent media experienced a couple years of at least temporary progress as well. Only one democratization component, anti-corruption, has advanced on balance over this time period, albeit from a very low level.

Armenia has one of the more effective governments in E&E Eurasia, according to the World Bank's governance measures. Only Georgia has consistently scored significantly better on this dimension than Armenia in recent years. Moreover, government effectiveness has increased on balance in Armenia from 1996 to 2014, though in a very nonlinear fashion. However, this relatively favorable assessment of the Armenian government's capacity to provide services and implement reforms is clearly not reflected in public perceptions in Armenia. From among seventeen Armenian public institutions cited, the lowest level of confidence is directed to the central government (in which 74% of the population surveyed in 2014 had little to no confidence), political parties (76% with no confidence), civil service (66%), labor unions (64%), and local government (63%).

Economic reforms. Progress in structural economic reforms in Armenia has exceeded both the E&E Eurasian and Balkan averages, though this progress has been non-linear, with backsliding and gains alternating in recent years. Armenia's progress in first stage economic reforms is comparable to E&E graduate standards (in trade liberalization and large-scale privatization) or reasonably close to E&E graduate norms (in price liberalization and small-scale privatization). Of the second stage reforms, Armenia lags the most in non-bank financial reforms.

Overall, as noted by the EBRD, structural economic reforms progressed on balance in 2015 in Armenia. This included improvements in enterprise governance (improving the institutional structure of an inspection system, progress in implementing a regulatory guillotine approach to the business environment, progress in developing a new tax code designed to reduce tax privileges and foster growth). Electricity tariffs increased towards market value, though sparking public demonstrations in the process. The Central Bank of Armenia increased minimum capital requirements to increase buffers and efficiency.

Armenia does well by both E&E Eurasia and global standards in terms of progress in micro-economic, or business environment, reforms. Armenia's global rank in its business environment is 35th out of 189 countries, though of the ten business environment components, Armenia's ranking ranges widely, from 99th in getting electricity to 5th in starting a business. Of the seven E&E Eurasia countries, only Georgia has a higher overall rank than Armenia. Armenia advanced in three dimensions in 2015: dealing with construction permits; trading across borders; and enforcing contracts.

Macroeconomic performance. Armenia's economy has experienced three distinct economic growth stages since 2000. From 2000-2008, economic growth in Armenia averaged 11.2% annually, which by any standard is very high; of the E&E Eurasian countries, only the energy-rich economy of Azerbaijan's performed at such a comparable rate. Then, in 2009, Armenia's economy severely contracted by 14.1%. Only four other countries in the world experienced greater economic contraction in 2009: Ukraine (-14.8%) alongside the three Baltic countries, Lithuania (-14.8%), Estonia (-14.7%), and Latvia (-14.3%). Finally, from 2010 to 2015, Armenia's economy grew annually on average by 3.9%. As with the large majority of E&E countries, Armenia's economic growth after the 2008-2009 global financial crisis has been notably lower than growth prior to the global recession. Overall, Armenia's economic growth performance since 2000 has been exceeded by only one other E&E Eurasia country, namely Azerbaijan.

Armenia's unemployment rate is very high, close to 20%, and highest of the E&E Eurasian countries. Armenia's export sector is very small, about 30% of GDP. The current account balance has been chronically in deficit. Alongside considerable fluctuation in exports and in the current account balance has been the substantial swings in external debt levels in Armenia, from 37% of GDP in 1997 to nearly 70% of GDP by 2002-2003, to 29% by 2008, and then a substantial surge triggered by the global financial crisis to nearly 80% of GDP by 2013.

Armenia's economy remains highly dependent on Russia, and some measures indicate that this dependency has been growing in recent years. Of the six E&E Eurasian countries, only Belarus' economy is more exposed to the Russian economy than is Armenia. Armenia's economy is mostly exposed through remittances and dependence on Russian energy. Armenia's imported energy from Russia likely represents 60-70% of total energy consumption in Armenia. A subset of E&E Eurasian countries which includes Armenia as well as Belarus and Moldova has been witnessing a re-orientation of trade back to the Russian market and away from the EU in recent years.

Falling energy prices and more broadly, declining prices of primary products, including minerals and metals, have had a mixed effect on Armenia's economy. While Armenia's dependency on energy imports has declined, so too has Armenia's mineral exports. In addition, the declining energy prices have contributed to economic contraction in Russia with significant adverse spillovers to the Armenian economy.

Agriculture in Armenia employs more than 35% of the labor force, one of the largest proportions in E&E. Agricultural value added exceeds 20% of Armenian GDP, a proportion that has held fairly stable since at least 2005. In E&E, only Tajikistan (27%) and Albania (23%) have a higher proportion of agricultural value added to GDP than does Armenia. Food exports as a percentage of merchandise exports has increased significantly in Armenia, from slightly more than 10% on average from 1999-2007 to more than 30% by 2014.

Progress in Armenia's SME sector is mixed. The sector has grown notably and its productivity relative to SME sectors elsewhere is favorable, yet SME exports have declined substantially. While the proportion of SME exports to total manufacturing exports decreased substantially in all the Eurasian countries from 2002 to 2013, the greatest decline occurred in Armenia where SME exports constituted nearly 30% of total manufactured exports in 2002, plummeting to 5% by 2013. The share of export-oriented SMEs to total SMEs also declined considerably during this time period, and again across all six countries. In 2002, 44% of Armenian SMEs were export-oriented; this fell to 18% by 2013.

The SME sector in Armenia employs 25% of the labor force and produces 27% of the value added of the economy. Based on a comparison of these two dimensions, productivity in Armenia's SME sector is greater than SME sectors elsewhere in E&E Eurasia where the share of SME employment exceeds the SME share of valued added. Moreover, the contribution of SMEs to GDP has doubled in Armenia since 2002.

Research topics that emerged from discussions during Gap Analysis presentations in Armenia, Ukraine, and Moldova, March 16-25, 2016. In each presentation, participants were encouraged to

provide feedback on what aspects of the analysis resonate, what aspects don't resonate and why, and what gaps or challenges are not being addressed that should be addressed. From the feedback, several themes consistently emerged: (1) media trends over time; the scope of backsliding and the reasons for it; (2) causal relationships between economic reforms and democratic reforms and economic performance; (3) basic demographic statistics and their implications on the transition; (4) education and the quality of the work force; (5) well-being at the household level vs. macroeconomic performance; and (6) greater disaggregation of trade flows, both trade partners and trade composition. The MCP team is exploring at least some of these topics that will result in a forthcoming *Selected Issues* working paper.

Introduction. Armenia's progress in its transition from communism to a market-based democracy is analyzed in the context of progress in the twenty-nine countries in the Eastern Europe and Eurasia region, drawing on E&E Bureau's Monitoring Country Progress (MCP) system. For analytical purposes, the twenty-nine countries are categorized into four sub-regions highlighted in *Figure 1*: (1) the eleven E&E countries that have graduated or have been phased-out from USG development assistance; (2) six Balkan countries; (3) seven E&E Eurasian countries; and (4) the five Central Asian Republics (CARs).¹ Armenia's progress and challenges are assessed below by first providing an overview of economic and democratic reform progress in the E&E context, followed by a more detailed analysis of democracy and governance, economic reforms, and macroeconomic performance (including integration with Russia, energy security, and the agricultural and SME sectors).

A draft of this Armenia gap analysis was initially presented to three groups in Yerevan, Armenia, in March, 2016: to U.S. Government colleagues on March 16; to USAID implementing partners on March 17; and to other donors and the Government of Armenia on March 18. Similarly, a Ukraine gap analysis was presented to U.S. government colleagues in Kiev on March 22 and to implementing partners and donors on March 23. A third leg of the trip included Chisinau, Moldova, where a Moldova gap analysis draft was shared with donors and Moldovan government officials on March 24 and to USG and implementing partner colleagues on March 25, 2016. During these presentations and discussions, a number of common research and analytical themes emerged, many of which are being pursued by the MCP team, which will result in a *Selected Issues* paper soon to follow.

In addition to this narrative, there is a methodology appendix that elaborates the primary indices used in the MCP empirical system.

Economic and Democratic Reform Overview (*Figures 1-5*). Relative to E&E graduate country standards, economic and democratic reforms in Armenia lag considerably, and most notably in democratic reforms (*Figure 1*).² Similarly, Armenia is well behind the economic and democratic reform phase-out thresholds, calculated as the average reform progress of Romania, Bulgaria, and Croatia in 2006. These thresholds stem from phase-out guidance developed in 2010 by the U.S. Department of State's Office of the Coordinator of U.S. Assistance to Europe and Eurasia.³

Among the seven E&E Eurasian countries, Armenia's reform progress is better than average, particularly in economic reforms. Across E&E Eurasia, only Georgia is more advanced than Armenia in both economic and democratic reform dimensions.

¹ The 29 country Eastern Europe & Eurasia region consists of the E&E Graduates (n=11): Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia; the Balkans (n=6): Albania, Bosnia & Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia; E&E Eurasia (n=7): Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia, and Ukraine; and the Central Asian Republics (CARs) (n=5): Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

² Nine economic reform indicators are drawn from the EBRD, *Transition Report* and seven democratic reform indicators from Freedom House, *Nations in Transit*. Elaboration and examination of these indicators are provided below.

³ Office of the Coordinator of U.S. Assistance to Europe & Eurasia, *Guidance for Revised AEECA Phase-Out Framework* (December 2010).

Figure 2 highlights the reform changes among the four E&E sub-regions between 1998 and 2015. The reform profiles of the sub-regions were much less distinguishable in 1998 than they are today. From 1998 to 2015, the E&E graduate and Balkan sub-regions advanced in both reform dimensions. Moreover, both sub-regions have become more homogeneous in their reform profiles, though each of these sub-regions has a salient country outlier; Slovenia in the case of the E&E graduates and Kosovo for the Balkans.

In contrast with the countries of Central and Eastern Europe, many E&E Eurasian countries and some of the Central Asian Republics have advanced in economic reforms while backsliding significantly in democratic reforms. Moreover, the E&E Eurasian countries have become more heterogeneous with time, with Russia, Azerbaijan, and Belarus more closely resembling the reform profile of the CARs in 2015, while Georgia, Armenia, Moldova, and Ukraine are now clustered together not far from the Balkans.

Some of these dynamics may be better viewed in *Figure 3*, which depicts two main groupings of E&E countries in 1998 evolving and splitting into three groupings by 2015. A salient aspect of this change is a growing democratization divide within the E&E Eurasian countries and the CARs. *Figure 4* examines that growing divide more closely. Among these twelve countries, Russia has led the way in democratic reform backsliding from 1996 to 2015. By 2015, Russia, Belarus, Azerbaijan, and the Central Asian Republics were closely clustered in terms of their democratization levels. By 2015, Georgia, Ukraine, Moldova, and Armenia were all notably more advanced in democratic reforms than the other seven countries of *Figure 4*. Nevertheless, of all twelve countries, only Georgia has made net gains in democratic reforms from 1996 to 2015, and those gains are very minor; i.e., the growing democratization gap is between one group of countries that is backsliding more than the other group.

Figure 5 maps Armenia's democratic reform changes with those in economic reforms from 1998 to 2015. Two stages are apparent. From 1998 to 2008, economic reforms advanced notably in Armenia alongside significant backsliding in democratic reforms. Since the 2008-2009 global financial crisis, the gap between economic and democratic reforms in Armenia has largely stabilized, with economic reforms much more advanced than democratization and virtually no net change in either reform dimension from 2008 to 2015.

Democratic reforms and governance (Figures 6-15). Armenia's challenges in advancing democratic reforms are better understood in the context of E&E-wide trends in democratization (*Figure 6*). Democratization, or political liberalization, was substantial and widespread throughout E&E in the early transition years. However, it proved very short-lived in E&E Eurasia and the CARs. By the early-to-mid-1990s, democratic reform backsliding became the norm in both sub-regions, and that continues to this day. Democratic reform advances in the eleven E&E graduate countries were substantial through most of the 1990s and likely historically unprecedented. However, since 2005, the year after eight of these countries became EU members, this sub-region has been experiencing gradual democratic reform erosion, with substantial backsliding in Hungary, Slovakia, and Bulgaria. In the Balkans, democratic reforms stagnated in the 1990s in conjunction with conflicts in the sub-region, then surged forward from

1999 to the mid-2000s, cresting by 2009. Since then, democratic reforms have been eroding in the Balkans as well.

Armenia's democratic reform path resembles that of the E&E Eurasian countries overall for most transition years; i.e., its change parallels E&E Eurasia regional trends albeit at a more advanced level of democratization, until recent years. Since 2010, Armenia has incurred a slight advance in democratization while E&E Eurasia has continued to regress overall.

Figure 7 shows the disaggregated democratic reforms trends in Armenia from 1996 to 2015.⁴ What may be most striking about Armenia's democratic reform profile is the large gap between a relatively advanced civil society in Armenia and the rest of the democratization components. While it is common in E&E to have civil society the most advanced democratization component, it is uncommon to have it as such an outlier that it is in Armenia. Another unusual characteristic in the case of Armenia is that electoral process is among the lagging indicators; it is most often in E&E a leading democratization indicator, alongside civil society.

Most of the change exhibited in *Figure 7* represents democratization backsliding. Governance and media have backslid the most over the 1996 to 2015 time period, though independent media experienced a couple years of progress as well. Only one democratization component, anti-corruption, has advanced on balance over this time period, albeit from a very low level.

The recently released *Nations in Transit 2016* (April 2016) shows no measureable change in any of the seven democratization components in Armenia in 2015. (The two governance measures, local and national democratic governance, score the same). In fact, Armenia has registered no score changes on any of the seven democratization components since 2012. As context, eleven of the twenty-nine E&E countries regressed in democratic reforms in 2015, nine countries advanced, and nine countries experienced no net change. This country count underestimates to some extent the backsliding since the backsliding countries regressed more than the advancing countries advanced. Democratization backsliding occurred in thirty components across the twenty-nine E&E countries in 2015, while only seventeen components advanced.

While Armenia's civil society is notably more advanced than the other democratization components, it has far to go before its level of development and/or sustainability is comparable to the civil societies in the E&E graduates. E&E graduate country civil societies score a 4.2 on average out of 5; Armenia's civil society scores a 3.1. Perhaps a more intuitive assessment of Armenia's civil society gap is provided in *Figure 8*. Civil society organizations (CSOs) in Armenia remain highly dependent on external funding sources. Seventy-five percent of CSOs surveyed in 2014 noted that international organizations and/or

⁴ These measures are from Freedom House's *Nations in Transit* and together constitute the democratic reform index of the previous charts and analysis. The governance measure shown in *Figure 7* is further disaggregated into local and national democratic governance by Freedom House, though not before 2004; hence, we combine the two measures to enable continuity in the 1996-2015 time series.

foreign donors were a primary or priority source of funding. No other source comes close: 27% of CSOs said membership fees were a primary source of funding; 26% said donations are important; only 9% said service fees were a primary source of funding.

IREX's *Media Sustainability Index* (MSI) provides a means to assess Armenia's media sector in greater detail than Freedom House's measure in its *Nations in Transit*, since the MSI can be disaggregated into five media components. Results are provided for three of those five components (business management, professional journalism, and plurality of news; free speech and supporting institutions are the other two components) in *Figures 9-11*, comparing Armenia's media progress against other E&E Eurasian countries and over time, from 2009-2015. The MSI shows a more favorable picture of media development in Armenia compared to Freedom House's assessment (as shown in *Figure 7*). Armenia's media falls in the "near sustainability" range in 2015 in all five media components; i.e., somewhere in between a "2" and a "3" on a 0-4 scale. Of the twenty-one E&E countries assessed by IREX (the eight Northern Tier CEE countries are not included; i.e., Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia), the media sectors of Armenia and Albania are the most advanced overall. Of the E&E Eurasian countries, Armenia is the most advanced in four of the five MSI dimensions; only Georgia is more advanced than Armenia in one dimension, namely free speech.

Armenia's media sector has also advanced relatively significantly since 2001 according to the MSI (and in contrast to Freedom House's assessment in *Figure 7*). This includes gains in 2015 in each of the five dimensions in Armenia. Business management is the lagging component in Armenia (and typically elsewhere in E&E), while plurality of news sources is the leading component.

The World Bank *World Governance Indicators* dataset provides some measures that complement and conceptually overlap with the Freedom House indicators of governance and corruption (*Figures 12-14*). As highlighted in the methodology appendix, the World Bank governance indicators tend to be narrower in scope and are focused more on efficiency and effectiveness. The World Bank's *government effectiveness* indicator, for example, focuses primarily on the quality of public service provision and the competence of civil servants; the Freedom House democratic governance measures assess effectiveness and capacity at the national and local levels, as well as stability, independence, and accountability of legislative and executive branches.

As with Freedom House's corresponding measure, corruption and anti-corruption efforts score very unfavorably in Armenia according to the World Bank's control of corruption indicator; just over a "2" out of a possible "5" (*Figure 12*). Also similar between the two sources is the trend over time in corruption; i.e., there's been a moderate improvement or reduction of corruption in Armenia since 1998. Both measures show Armenia's corruption generally less problematic than other E&E Eurasian countries (with the salient exception of Georgia) and the CARs (*Figures 12 and 13*). Both sources indicate that corruption is less prevalent in almost all Central and Eastern European countries than in Eurasian countries, Albania, Kosovo, and Georgia being the exceptions to this overall dichotomy.

Armenia has one of the more effective governments in E&E Eurasia, according to the World Bank's governance indicator (*Figure 14*). Only Georgia has consistently and notably scored better on this

dimension than Armenia in recent years. Moreover, government effectiveness has improved a moderate amount in Armenia since 1996, notwithstanding a decline in 2014. However, this relatively favorable assessment of the Armenian government's capacity to provide services and implement reforms is clearly not reflected in public perceptions in Armenia (*Figure 15*). From among seventeen Armenian public institutions cited, the lowest level of confidence is directed to the central government (in which 74% of the population surveyed in 2014 had little to no confidence), political parties (76% with no confidence), civil service (66%), labor unions (64%), and local government (63%). At the other end of the confidence spectrum are the armed forces (14% no confidence), the church (15%), and charitable/humanitarian organizations (29%).

Economic reforms: macro and micro (*Figures 16-20*). There are some similarities between macroeconomic and democratic reform trends in the four E&E sub-regions (*Figure 16* vs. *Figure 6*). E&E graduates are well out-front in both reform dimensions and the CARs lag the most. All sub-regions made substantial early gains in both sets of reforms, and the Balkans have made the most significant gains since the late 1990s, narrowing the reform gaps with E&E graduates. However, the widespread backsliding in democratic reforms has not been matched with similar backsliding in economic reforms, though progress in the latter has mostly stagnated in recent years across E&E sub-regions, with the exception of the Balkans. In addition, as evident in *Figure 16*, 2015 saw an upturn in economic reform progress in three of the four sub-regions, all except the Central Asian Republics.

Armenia's economic reform progress has exceeded both the E&E Eurasian and Balkans averages every year since 1995, though its progress has been non-linear, with backsliding and gains alternating in recent years. *Figure 17* shows the nine indicators from the European Bank for Reconstruction and Development (EBRD) that comprise MCP's macroeconomic reform index (as presented in *Figure 16*).⁵ In *Figure 17*, Armenia's macroeconomic reform profile is compared to two standards: (1) the average progress of the eleven E&E graduate countries in 2015 (in blue); and (2) standards of advanced market economies (defined as a "5" in MCP's 1 to 5 scale). Armenia's progress in first stage economic reforms is comparable to E&E graduate standards (in trade liberalization and large-scale privatization) or reasonably close to E&E graduate norms (in price liberalization and small-scale privatization).

As is the case among even the E&E graduates, second stage economic reforms lag considerably more than first stage reforms in Armenia. Second stage macroeconomic reforms require re-engagement of the government with the private sector in developing the institutions and regulatory capacities necessary to guide a viable market economy, and include reforms in bank and non-bank financial sector reforms (in private equity, MSME finance, financial services, and capital markets), in infrastructure (electric power, telecommunications, water & waste water, roads, railways), competition policy (and ease of market entry), and enterprise restructuring (or corporate governance including ease of market exit or bankruptcy policy). Of the second stage reforms, Armenia lags the most in non-bank financial reforms. Of the four non-bank financial reform aspects, Armenia lags the most (with a score of "1") in private equity. A 2014 study by EV Consulting Research Center (*National Competitiveness Report of Armenia, 2013-2014*) goes so far as to identify Armenia's one-dimensional financial system (i.e., an

⁵ Drawn from the EBRD's annual *Transition Report*.

imbalanced financial system that is overwhelmingly dominated by the banking system) as a binding constraint or a key bottleneck to economic growth.

Figure 18 consolidates the EBRD economic reform indicators into five areas and shows trends over time: (1) liberalization combines trade and domestic price liberalization; (2) privatization combines small-scale and large-scale privatization reforms; (3) energy reforms include reforms in electric power, sustainable energy, and natural resources; (4) enterprise governance includes enterprise restructuring and competition policy; and (5) financial sector reforms include bank and non-bank financial reforms. The greatest change since 2000 has been in liberalization: the gains in 2002-2003 were related to Armenia's entrance into the World Trade Organization; the 2011 backsliding was due to temporary price controls; and the 2015 backsliding was due to an increase in import tariffs (stemming from Armenia's obligations as a new member of the Eurasian Economic Union). Overall, as noted by the EBRD, structural economic reforms progressed on balance in 2015 in Armenia.⁶ This included improvements in enterprise governance (improving the institutional structure of an inspection system, progress in implementing a regulatory guillotine approach to the business environment, progress in developing a new tax code designed to reduce tax privileges and foster growth). Electricity tariffs increased towards market value, though sparking public demonstrations in the process. The Central Bank of Armenia increased minimum capital requirements to increase buffers and efficiency.

Armenia does well by both E&E Eurasian and global standards in terms of micro-economic, or business environment, reform progress (*Figure 19*). These reforms are measured by the World Bank *Doing Business* dataset.⁷ Armenia's overall global rank in its business environment is 35th out of 189 countries. Of the E&E Eurasia countries, only Georgia ranks better than Armenia in these reforms. Armenia advanced in three dimensions in 2015: (1) Armenia made dealing with construction permits easier by exempting lower-risk projects from requirements for approval of the architectural drawings by an independent expert and for technical supervision of the construction; (2) Armenia reduced the time and cost for documentary and border compliance for trade with the Russian Federation by joining the Eurasian Economic Union; and (3) Armenia made enforcing contracts easier through a new law requiring that cases be assigned to judges randomly, and through a fully automated system in courts throughout the country.

The overall business environment score in a given country typically masks considerable diversity in the ease of doing business among the ten business environment areas. This is certainly the case in Armenia as shown in *Figure 20*, which highlights Armenia's rank in each of the ten components. Armenia's ranking ranges from 99th in getting electricity to 5th in starting a business. Nevertheless, only one

⁶ EBRD, *Transition Report 2015-2016* (November 2015). *Country Assessments: Armenia*, Pp. 1-4.

⁷ World Bank, *Doing Business 2015/2016* (October 2015). The overall ranking and score are based on ten aspects of government's involvement in the business climate. As elaborated in the methodology appendix, this ranges from the procedures, time, and cost to start a business as well as to end a business (i.e., resolving insolvency), and many areas "in between," including the difficulty of getting a construction permit, registering property, paying taxes, and enforcing contracts.

dimension in Armenia's business environment, i.e., getting electricity, ranks higher (poorer) than the global median (of 95th). The three most problematic business constraints in E&E Eurasia are getting electricity, dealing with construction permits, and resolving insolvency (*Figure 21*). These are the same three constraints that are most problematic in Armenia's case (*Figure 20*).

Macroeconomic performance (*Figures 22-53*). Armenia's economy has experienced three distinct economic growth stages since 2000 (*Figure 22*). From 2000-2008, economic growth in Armenia averaged 11.2% annually, which by any standard is very high; of the E&E Eurasian countries, only the energy-rich economy of Azerbaijan's performed at such a comparable rate. Then, in 2009, Armenia's economy severely contracted by 14.1%. Only four other countries in the world experienced greater economic contraction in 2009: Ukraine (-14.8%) alongside the three Baltic countries, Lithuania (-14.8%), Estonia (-14.7%), and Latvia (-14.3%). Finally, from 2010 to 2015, Armenia's economy grew annually on average by 3.9%. As with the large majority of E&E countries, Armenia's economic growth after the 2008-2009 global financial crisis has been notably lower than growth prior to the global recession. Overall, as evident in *Figure 22*, Armenia's economic growth performance since 2000 has been exceeded by only one other E&E Eurasia country, namely Azerbaijan. By 2015, Armenia's economy was almost three times larger than what it was in 1999.

Figure 23 assesses economic growth and contraction trends in E&E Eurasia since the collapse of communism in 1989. Clearly, assessing data trends over such a long time period has its limits in terms of reliability of the results. More specifically in this instance, it may very well be that the transition depression in 1990s experienced by all the E&E countries is overstated by these data (given that GDP was likely overstated by communism accounting prior to the collapse). It is also plausible that economic growth since the transition depression has been somewhat understated given the large informal economies in many of these countries, notwithstanding efforts by the IMF and other agencies to incorporate all economic activities into the GDP statistics.

In any event, a comparison of the economic growth trends of *Figure 23* across countries is insightful and merited. Economic performance among the E&E Eurasian countries since 1989 has varied tremendously. At one end of the spectrum, the economies of Azerbaijan and Belarus have doubled in size from 1989 to 2015. At the other end, the economies of Georgia, Ukraine, and Moldova have not even regained their pre-transition GDP levels. Armenia's economy was the first economy of the E&E Eurasian countries to start reversing the economic collapse of the transition depression, with economic growth in 1994. Ukraine, in contrast, did not first experience economic growth in the transition years until the year 2000.

As evident in *Figure 23*, Armenia's economy has performed very well by E&E Eurasian standards since the collapse of communism. It is also evident that Armenia's growth and contraction path resembles quite closely that of Russia's, suggesting close economic integration between the two countries.

Armenia's unemployment rate is very high, close to 20%, highest of the E&E Eurasian countries (*Figure 24*) and higher than most rates elsewhere in the world (though not higher than most unemployment rates in the Balkans). During Armenia's high economic growth years of 2000-2008 (when the economy

grew on annual average by 11.2%), its unemployment rate decreased substantially, by more than half, from 38% in 2001 to 16% in 2008. During and after the global financial crisis (when the economy grew on annual average by only 1.3% from 2009-2015), Armenia's unemployment rate increased to 19% and has been maintained at roughly that rate (18-19%) since 2009. Armenia's youth unemployment rate in 2013 was 36%, or roughly two times greater than the national rate. Of the E&E Eurasian countries, only Georgia has a youth unemployment rate as high as Armenia's rate. Armenia's youth unemployment rate has decreased since the global financial crisis from 41% in 2010 to 36% by 2013.

Armenia's export sector is very small, about 30% of GDP (*Figure 26*). Export sectors tend to be much larger in many of the E&E graduates, as well as in Western Europe: 54% of GDP in Austria; 58% in Latvia; 68% in Bulgaria; 82-85% in Belgium, the Czech Republic, Estonia, and Lithuania. Armenia's export sector has also fluctuated in size considerably over the years, certainly more so than in most economies.

From 2003 to 2008, Armenia's export share of GDP fell by half, from 32% to 15%. This period coincided with very high economic growth in Armenia; evidence that economic growth was domestically driven during this period. Much of that growth was due to residential construction activity which in turn was fueled by remittances.

Not surprisingly, Armenia's current account balance has fluctuated alongside the export sector's changes (*Figure 26*). Nevertheless, the current account balance has been chronically in deficit; since the global financial crisis, Armenia's current account deficits have averaged close to 10% of GDP, though they have been steadily decreasing. Foreign direct investment as a percentage of GDP has fallen from around 8-9% of GDP in the years leading up to the global financial crisis to less than 5% of GDP in recent years.

Alongside the considerable export and current account balance fluctuations has been the substantial swings in external debt levels in Armenia, from 37% of GDP in 1997 to nearly 70% of GDP by 2002-2003, to below 30% by 2008, and then a substantial surge triggered by the global financial crisis to nearly 80% of GDP by 2013 (*Figure 26*). Much of this increase has been attributed to the government's efforts to mitigate the social impact of the economic crisis, which also contributed to a sharp increase in external public debt from 16% of GDP in 2008 to 36% in 2009; by 2015, Armenia's public debt was closer to 44% of GDP.⁸

Relations and interactions with Russia (*Figures 27-38*). Armenia's economy remains highly dependent on Russia, and some measures indicate that this dependency has been growing in recent years. Some comparisons of economic size and wealth are helpful context; the disparities between the two economies in these aspects are substantial. Russia's economy dwarfs Armenia's economy; Russian GDP is more than 100 times greater than Armenia's GDP (*Figure 27*). Per capita income in Russia is three times greater than average income in Armenia; 2014 per capita income (in purchasing power parity terms) in Russia was \$23,300; in Armenia, it was \$7,700 (*Figure 28*). The poverty rate in Russia in 2013

⁸ The Asian Development Bank, *Country Partnership Strategy of Armenia: 2014-2018* (December 2014), and EV Consulting, *National Competitiveness Report of Armenia* (2014).

as estimated by the World Bank (at less than \$3.10 per day) was close to zero; in Armenia, it was 17% of the population (*Figure 29*).

Figure 30 summarizes an effort to measure economic linkages in E&E Eurasia with Russia in trade, remittances, and investments. More specifically, in each Eurasian economy, we measured GDP exposure to Russia's economy in trade (i.e., exports as a percentage of GDP times the proportion of exports going to Russia), in remittances (total remittances as a percentage of GDP times the proportion of remittances coming from Russia), and investments (FDI as a percentage of GDP times the proportion of FDI from Russia). We found four levels of GDP exposure in E&E Eurasia to the Russian economy: (1) Belarus' economy is the most exposed, almost 30% of its GDP; followed by (2) Armenia and Moldova, closer to 20% GDP exposure; then (3) Ukraine and Georgia, between 10-15% GDP exposure; and, lastly, (4) Azerbaijan, lagging well behind at less than 5% GDP exposure. Armenia and Georgia are mostly exposed through remittances from Russia. Belarus, Moldova, and Ukraine are mostly exposed to Russia's economy through trade. GDP exposure through FDI is relatively insignificant in all six countries.

Figures 31-36 provide elaboration of these inter-relationships, highlighting trends over time. Of the E&E Eurasian countries, remittances as a percentage of GDP are highest in Moldova, followed by Armenia and Georgia (*Figure 31*). Remittances have been highly volatile in Armenia and Moldova. Remittances in Armenia have decreased significantly since 2013, largely because Russia's economy has been in crisis and most Armenian remittances come from Russia, 65% in 2014, which is the largest percentage of remittances from Russia to any one E&E Eurasian country (*Figure 32*).

International trade ties between Russia and the six E&E Eurasian countries and the CARs are uniformly weaker today than at the outset of the collapse of the Soviet Union, and in most cases, significantly weaker (*Figure 33*). The proportion of exports from these countries to Russia has declined significantly from the early 1990s to 2013 in all instances.

Nevertheless, of the eleven countries, Armenia has had the smallest proportionate decline; from 35% in 1993 to 25% in 2013. Moreover, while all the countries in E&E Eurasia and the CARs have seen a reduction in exports to Russia since the early 1990s, a subset of these countries has been witnessing a re-orientation back to the Russian market and away from the EU, of growing export shares to Russia and declining export shares to the EU in recent years. This has been the case, at least up to 2013, in Belarus, Moldova, and Armenia. Armenia's export share to Russia reached a minimum in 2004 while its export share to the EU peaked in 2008 (*Figure 34*). A contributing factor to this trend relates to the nature of Armenia's exports to the EU and Russia. Most Armenian exports to the EU have comprised ores and minerals and hence have been subject to the substantial price volatility and, in recent years, substantial price declines. Much of Armenia's exports to Russia, in contrast, have been processed goods, and hence are less exposed to price volatility.

More than 50% of FDI in Belarus and Armenia comes from Russia, which is a much higher proportion than that found in the other E&E Eurasian countries (*Figure 35*). Moreover, the Russian share of FDI in Armenia roughly doubled from 2001-2006 to 2007-2012. *Figure 36* shows FDI inflows from Russia, the U.S., and the rest of the world to Armenia over time in absolute U.S. dollar terms. It underscores

considerable volatility in FDI in Armenia, with most of that volatility due to Russian FDI. In absolute terms, Russian FDI in Armenia grew substantially from 2005-2008 and then contracted by a roughly comparable amount from 2008-2012. Since 2006, Russian FDI in Armenia has far exceeded U.S. FDI in Armenia.

Armenia, as well as a number of other E&E countries, is also highly dependent on the Russian economy for energy (*Figures 37 and 38*). Feedback from colleagues in the field and in Washington combined with World Bank estimates of total energy imports as a percentage of energy use indicate that some of our calculations may underestimate this dependency, most notably in Moldova and, to a lesser extent, in Armenia. We estimated that Armenia's imported energy from Russia was 61% of total energy consumption in Armenia in 2014 (*Figure 38*). A more accurate estimate may be closer to 70%. USAID/Armenia has drawn on an estimate of 80%. On the other hand, the World Bank has estimated that total energy imports (i.e., from all country sources) were 72% of energy use in Armenia in 2014. We estimated that Moldova's energy imports from Russia were 32% of total energy consumption in Moldova in 2014. This was based in large part on the estimate (shown in *Figure 37*) that 50% of Moldova gas imports come from Russia. Observers in the field and in Washington have maintained that the percentage of Moldovan gas imports from Russia is closer to 100% of total gas imports. If so, imported energy from Russia as a percentage of total energy consumption in Moldova may be closer to 60% than 30% (as shown in *Figure 38*). The higher estimate may be more consistent with the World Bank estimate of total energy imports (i.e., from all country sources) of 90% of energy use in Moldova in 2014.

With these considerations and caveats in mind, there appear to be four levels of energy dependency from Russia among the E&E Eurasian and Balkan countries (*Figure 38*): (1) Belarus is far and away the most dependent on Russia for energy, and in fact uses much of the energy imports for exports, which is how imported energy from Russia can exceed energy consumption in Belarus ; then (2) Armenia and Moldova, with energy imports from Russia in the (likely) range of 60-70% of total energy consumed; followed by (3) Serbia, Ukraine, and Bosnia & Herzegovina, all close to 20%; and (4) Georgia, Macedonia, Azerbaijan, and Albania, where energy dependency on Russia is moderate at most. (No data exist for Kosovo). Of the E&E Eurasian countries, this grouping or ranking is essentially the same as the GDP exposure levels from trade, remittances, and investment (as shown in *Figure 30*). In this respect, energy dependency of the Russian economy in E&E Eurasia aligns closely with economic dependency in trade, remittances, and investment.

A very important aspect of Armenia's economic and political relationship with Russia is Armenia's membership in the Eurasian Economic Union (EEU), a customs union with Russia, Kazakhstan, and Belarus. Armenia officially joined the EEU in January 2015. Membership entails gradual adoption of a common tariff system with other EEU members. As the EBRD notes, empirical evidence on the economic implications of EEU membership is still inconclusive.⁹ It is expected that Armenia's dependence on the Russian economy will continue to increase as a result of the membership. There will likely be trade creation with EEU members, but also some trade diversion from EU markets and other

⁹ EBRD, *Transition Report 2015-2016* (November 2015). *Country Assessments: Armenia*, p. 3.

parts of the world. Armenia will need to increase its import tariffs from the very low current level of 2.4% to the EEU's average external tariff rate with the EU of 9.0%. However, non-tariff barriers within EEU will likely continue to fall. EEU membership qualifies Armenia to receive approximately 1% of customs duties from goods imported to the EEU territory. As part of the membership, Russia has agreed to provide discounted gas supplies through 2018, which at least initially, prior to the collapse of energy prices, was estimated to be a substantial savings for the Armenian economy (One earlier estimate had the savings at 1.5% of GDP).

Armenia has also recently completed a joint scoping exercise with the EU, which is expected to lead to negotiations on a new overarching agreement between the two, presumably compatible with Armenia's EEU membership obligations. Nevertheless, Armenia has clearly pivoted from previously trying to complete an Association Agreement with the EU, which was to include a Deep and Comprehensive Free Trade Area, to joining Russia in a customs union. Moreover, the longer-term, more dynamic impacts from Armenia's pivot may be more problematic than the shorter-term, static impacts (of trade creation and trade diversion). As has been evident with other E&E countries, greater economic ties with the EU and prospects for greater integration have provided strong incentives to modernize, diversify, and to undergo critical mutually reinforcing economic and political reforms. With the pursuit of deeper ties with Russia, Armenia may have fewer incentives to advance democratic and economic reforms than if its primary focus were greater economic integration with the EU. On the other hand, an EU in fundamental crisis provides much fewer economic and political benefits and incentives than does a healthy, vibrant, and expanding EU.

Energy Security (Figures 37-43). We include two aspects of energy security: energy dependency and energy efficiency. We previously showed data of Armenia's high dependence on Russia for energy (Figures 37 and 38), with energy imported from Russia amounting to as much as 70% of total energy consumed in Armenia. Another measure and form of energy dependency is depicted in Figure 39; namely, fuel imports as a percentage of total exports of goods and services. What proportion of foreign exchange earned from exports is needed to purchase fuel imports? In 2014, fuel imports for Armenia amounted to roughly one-third of Armenia's export earnings. This is very high by any standard; higher than that found in other E&E Eurasian countries and more than two times higher than that of Western Europe and the E&E graduate countries.

Energy dependence by this measure has been declining systematically across countries in recent years. Of the countries shown in Figure 39, this decline has been occurring since 2008-2009 in Moldova, Armenia, and Belarus, and more recently in Ukraine and Western and Eastern Europe. The decline can be attributed to a growing export sector and/or falling fuel imports. In Armenia's instance, it has been both. However, the primary reason in Armenia and elsewhere since at least 2012 is very likely a fall in fuel imports due largely to the plummeting price of oil (Figure 40).

Falling energy prices and, more broadly, declining prices of primary products, including minerals and metals, have had a mixed effect on Armenia's economy. While Armenia's dependency on energy imports has declined, so too has Armenia's mineral exports (Figure 41). In addition, the declining energy

prices have contributed to economic contraction in Russia with significant adverse spillovers to the Armenian economy.

A very broad measure of energy efficiency is economic output per energy input or usage; the greater the economic output relative to energy input, the more energy efficient the economy. By this measure, the former communist countries were the most energy inefficient countries in the world prior to the collapse of communism (*Figure 42*). In large part due to technological change and progress, GDP per unit of energy use has been increasing throughout the world, including in E&E. In fact, some of the most significant gains in energy efficiency since 1990 have occurred in Eastern Europe and Eurasia, particularly the E&E graduate countries, though this also includes Armenia. Nevertheless, some E&E countries remain very energy inefficient. The ten most energy inefficient countries in the world in 2013, measured by GDP per unit of energy use, included three E&E countries: Turkmenistan (with a rank of 7th worldwide in energy inefficiency); Ukraine (9th); and Uzbekistan (10th).

A narrower measure of energy efficiency specifically in the electricity sector is electric power transmission and distribution losses as a percentage of electricity output (*Figure 43*). In Armenia in 2013, electric power transmission and distribution losses (which include pilferage) was 12% of electricity output. This is two times higher than losses in Western Europe (at 6%), slightly higher than that among the E&E graduate countries (10%), though slightly lower than the E&E Eurasian average (of 14%). Greatest losses in E&E are in Albania (28% of electricity output) and Moldova (25%). Greatest losses worldwide are in Togo (87%). Electricity losses in transmission and distribution have fallen substantially in Armenia, by more than half from 26% in 2001 to 12% in 2013. Declining losses is a general medium-term trend in E&E. An important additional issue to note in the case of Armenia's electricity sector is the growing strain in the capacity to produce electricity given the aging electricity infrastructure. According to the Asian Development Bank, the Metamor nuclear power plant generates about 30% of the country's electric power but is nearing the end of its economic life.¹⁰

Agriculture and small & medium sized firms (*Figures 44-51*). Agriculture plays a significant role in Armenia's economy. According to the World Bank, agriculture employs over 35% of the Armenian labor force (*Figure 44*). This is one of the largest proportions in E&E for which data are available, and is comparable to agricultural sectors in Guatemala (33%), Honduras (36%), and Indonesia (34%). However, drawing on discussions in Yerevan, this estimate may be an overestimate, given that many land-owning Armenians in the rural parts of the country do not farm the land, yet are included in the agricultural labor force statistics.

Agricultural value added exceeds 20% of GDP in Armenia and that proportion has held fairly stable since at least the mid-2000s (*Figure 45*). In E&E, only Tajikistan (27%) and Albania (23%) have a higher proportion of agricultural value added to GDP than does Armenia. Armenia's agricultural value added as a percentage of GDP is comparable to that found in many Sub-Saharan African countries (including Benin, Cameroon, Guinea, the Gambia, and Ghana), as well as Nicaragua and Paraguay.

¹⁰ The Asian Development Bank, *Country Partnership Strategy of Armenia: 2014-2018* (December 2014), p. 3.

A basic means to measure productivity in agriculture is to compare the percentage of the economy's labor force in agriculture to the economy's agricultural value added as a percentage of GDP (*Figure 46*). Agriculture in the U.S. employs 2% of the labor force and contributes 2% of GDP. It is, in other words, relatively efficient; at least as efficient as the non-agricultural sectors of the U.S. economy and more efficient than countries where employment exceeds the sector's contribution to the economy, as is the case most notably in Armenia, Moldova, and Serbia as shown in *Figure 46*. In Armenia, approximately 35% of the labor force (in agriculture, by official estimates) is dedicated to produce 20% of GDP, well off the 45% line of equality.

Food exports as a percentage of merchandise exports has increased significantly in Armenia, from slightly more than 10% on average from 1999-2007 to more than 30% by 2014 (*Figure 47*). This is comparable to the proportion of food exports from Ukraine. Of E&E Eurasian countries, the proportion of food exports to merchandise exports is far and away the highest in Moldova, 65% in 2014.

The EBRD, the European Training Foundation (ETF), the EU, and the OECD have joined efforts to produce a policy index for micro, small, and medium-sized firms (SMEs) in the Eastern Partner Countries (i.e., Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine).¹¹ The index draws on analysis and data from the World Economic Forum's *Global Competitiveness Report*, the World Bank's *Doing Business*, and other familiar sources. In addition, the *SME Policy Index* draws on some unique contextual data on SMEs in these six countries. We share highlights of these contextual data in *Figures 48-51* though with the caveat that it is very difficult to assess the accuracy of these data; there is little in the way of complementary evidence and/or analysis that can serve as a means to triangulate trends in the SME sectors in these countries. In addition, the study acknowledges and underscores that the definitions of firm sizes (from micro to large) vary to some extent across the countries, hence highlighting the limitations in the precision of comparisons.¹² In this context, we find some striking results and perhaps some counter-intuitive findings as well.

As shown in *Figure 48*, the proportion of exports from SMEs to total manufacturing exports in these six countries has decreased substantially from 2002 to 2013.¹³ The greatest decline has occurred in Armenia, where SME exports constituted almost 30% of total manufactured exports in 2002, plummeting to 5% by 2013. On average, the six-country region witnessed a substantial decline in SME exports relative to total manufacturing exports, from 19% in 2002 to 8% in 2013. One seemingly plausible explanation discussed during the Gap Analysis presentations in Yerevan, Kiev, and Chisinau was the working hypothesis that the growth of exports from large-sized firms stemming from the growing strength and reach of oligarchies has largely crowded out SME exports. This contention, however, may not be supported by the trends in *Figure 49*, which show that the share of export-

¹¹ EBRD, ETF, EU, OECD, *SME Policy Index: Eastern Partner Countries 2016* (2015).

¹² Firm sizes are defined using a number of dimensions, including number of employees, annual revenues or turnover, and total assets. In terms of employment, the firm size definitions are the same for Armenia and Ukraine, namely, micro is <10 employees, small is <50 employees, and medium is < 250 employees. For Moldova, the definition by employment differs somewhat: micro is <10; small <50; and medium <100 employees.

¹³ The *SME Policy Index* report draws on the EBRD/World Bank Business Environment and Enterprise Performance (BEEPS) survey rounds for the SME export data shown in *Figures 48* and *49*.

oriented SMEs to total SMEs has also declined considerably during this time period, and again across all six countries.¹⁴ In 2002, 44% of SMEs in Armenia were export-oriented; this fell to 18% by 2013. Even the country with the smallest decline (Belarus) had a significant decrease, from 50% in 2002 to 38% in 2013. The competitiveness or at least outward-orientation of SMEs in Armenia and Eurasia has apparently declined, irrespective of trends in large firms and oligarchies.

As we did with the agricultural sector in *Figure 46*, we compare employment in the SME sector with SME value added in *Figure 50* for a broad gauge of the sector's productivity, as well as to assess the sector's relative size on these two dimensions. According to these estimates, the SME sector in Armenia employs 25% of the labor force and produces 27% of the value added of the economy. By this measure, productivity in Armenia's SME sector is greater than that of other SME sectors elsewhere in E&E Eurasia, where the share of SME employment exceeds the SME share of valued added. The largest outlier in this regard is Georgia, which is characterized by an SME sector that employs more than 40% of the economy's labor force yet contributes only 20% of GDP. The size of the SME sectors in E&E Eurasia ranges widely, smallest in Azerbaijan (less than 10% of the labor force and and 1% of value added), and largest in Ukraine (almost 70% of the labor force and 55% of value added). As shown in *Figure 50*, Ukraine's profile in these two dimensions is very similar to that of the EU. According to the narrative of the *SME Policy Index* report, the contribution of SMEs to GDP has doubled in Armenia since 2002.¹⁵

Finally, the *SME Policy Index* provides further disaggregation of SME employment and value added according to the four firm size categories (large, medium, small, and micro) in Armenia and Ukraine (*Figure 51*). This enables a comparison of the productivity of the various firm size types in the two countries. The results vary widely between the two countries. In sum, smaller firms are more productive in Armenia, while larger firms are more productive in Ukraine. More specifically, in Armenia, the GDP-to-employment ratio is highest among the small and micro enterprises. In Ukraine, it is the large and medium sized firms that achieve the highest GDP-to-employment ratio, and it is the small and micro firms that provide the lowest GDP relative to employment.

Research topics that emerged from discussions during Gap Analysis presentations in Armenia, Ukraine, and Moldova, March 16-25, 2016. In each presentation, participants were encouraged to provide feedback on what aspects of the analysis resonate, what aspects don't resonate and why, and what's missing in the analysis; what gaps or challenges are not being addressed that should be addressed. From the feedback, several themes consistently emerged: (1) media trends over time; (2) causal relationships between economic reforms and democratic reforms and economic performance; (3) basic demographic statistics and trends and their impact on the transition; (4) education and the quality of the work force; (5) well-being at the household level vs. macroeconomic performance; and (6) greater disaggregation of trade flows, both trade partners and trade composition. Some elaboration is provided below. The MCP team is engaged in exploring at least some of these topics that will result in a *Selected Issues* working paper.

¹⁴ Export-oriented SMEs export directly or indirectly at least 1% of sales.

¹⁵ EBRD, et.al., *SME Policy Index* (2015), p. 213.

- (1) Media trends over time. There was good discussion about the prevalence and the meaning of backsliding in the media sector in E&E Eurasia. There are a handful of data sources on media trends in E&E (including Freedom House, *Nations in Transit*, Freedom House, *Freedom in the World*, and IREX, *Media Sustainability Index*). To what extent do the different sources show similar trends? Are the results from different sources closely correlated? To what extent are the different sources measuring similar aspects of the media sector? To what extent are the disaggregated aspects of media in the *Media Sustainability Index* correlated? How can there be backsliding in media when the plurality of media sources has presumably increased substantially over the past ten to fifteen years?
- (2) Causality between economic reforms and democratic reforms and economic growth. How important is progress in economic and democratic reforms in Eurasia in light of the economic growth results that highlight that the reform laggards (Azerbaijan and Belarus) have witnessed the greatest economic growth over the medium term? Similarly, why is Georgia's economy not doing better given its relatively significant progress in reforms and governance? Are other dynamics or factors (such as the influence of the EU and/or the Eurasian Economic Union, and the significance of energy dependence and energy prices) more important to economic growth than reform progress? Can we identify causal relationships between economic reforms and democratic reforms and economic growth? What does the theoretical and empirical literature say?
- (3) Demography. How are some fundamental demography trends in E&E influencing progress in the transition to market-oriented democracies? What is the economic significance of an aging population that is occurring in some of these countries? What is the impact of overall population declines (from natural population changes as well as migration flows) on economic growth, labor markets, and health systems? What are the basic demographic trends; i.e., to what extent are populations still declining in E&E, where and why?
- (4) Education and quality of the labor force. Existing standardized tests across the globe generally show students in the Eurasian countries doing relatively well in math, science, reading, and problem solving. The Balkans lag behind the Eurasian countries on these scores. The PISA tests (OECD's Programme for International Student Assessment) may be the most comprehensive. Yet, the most recent PISA scores are for 2012. How meaningful are these standardized tests towards assessing functional literacy in E&E? Is there more recent evidence on the quality of the education systems in Eurasia that can be analyzed and synthesized?
- (5) Household surveys of well-being vs. the macro picture of well-being of the economy. How reliable and meaningful are the GDP trends in E&E over the transition decades? To what extent does the macroeconomic picture align with the micro or household picture of well-being?
- (6) Trade disaggregation. It would be helpful to deepen the analysis of these countries' integration into the world economy by disaggregating trade flows. Which countries are the top trading

partners and for which goods and services? What are the Eurasian countries trading with Russia? What are they trading with the EU? How are the trends changing over time?