
IDA at Work : Armenia.

An Interview with Vahram Nercissiantz

Vahram Nercissiantz is the Chief Economic Advisor to the President of Armenia, and has held this position since 1998. He is also the Vice Chairman of Armenia's Economic Coordination Council and is Armenia's Governor of the World Bank. Before that he had a rich 30-year career at the World Bank itself, working in many regions and serving as the Bank's first Country Manager in Yerevan.

In January 2007, we asked him to shed light on IDA's special role in Armenia.

When you look back at the past 10-15 years, how has Armenia changed and what are you most proud of?

What impresses me most in Armenia's performance is the move in two strategic directions: one, its move to liberal democracy, and second its transition to an open, mostly private economy. Eighty percent of Armenia's production and employment is now driven by the private sector. It's classified by the Wall Street Journal and various think tanks as one of the most liberal economies. Because of this, we've been able to restore economic growth. We've had impressive double-digit growth rates for the last six years, and all this in very stable conditions with low single-digit inflation.

As a result, we've been able, through production, to reduce poverty from 55 in 1996 to 30 percent last year. This year we expect it to be around 25 percent. All this indicates that our economic policies -- policies which are the fruit of our collaboration with development partners, chief among them the World Bank Group -- have been successful.

What is IDA's biggest contribution in your opinion?

IDA's main contribution has been the intellectual assistance which Armenia received at the outset. Analytical work was very important to help anchor the decisions of inexperienced officials just waking up from the "Soviet sleep." Without this analytical foundation, arbitrary decisions would have caused many, many problems down the pike.

The "back-to-office" report produced by the Bank's first mission to Armenia in February 1992 became a key instrument for the new leadership, which wanted to reform and was open to advice. That report laid down strategic directions for economic transition and evolved into the first country economic memorandum of 1993, which became, in a sense, the roadmap to transition. It was the right advice at the right time, with a design that suited the new, emerging leadership of a newly independent Armenia.

But advice alone doesn't work. Advice has to be somehow integrated into concrete projects, sector measures and policy designs. IDA's assistance included all this in a broad-based strategy, in a true consultative process where international experience and options were brought to us and we were able to make our own choices.

One example of this is Armenia's land reform, which was started, in fact, one year before the collapse of the Soviet Union. (At the time I was still working at the Bank on Latin American countries but got involved with Armenia on a voluntary basis.) The Bank was able to share

work that was done in Latin America, specifically in Mexico in 1989 and 1990. It was an experience which helped define the rights and privileges which privatization of land required. Thanks to this reform, and the World Bank's land titling and irrigation projects which followed, we were able to keep a fairly good productive agricultural sector and prevent famine in the wake of the Soviet collapse.

I want to also mention the Poverty Reduction Paper developed with the assistance of IDA and the IMF, which has served as the framework for numerous projects and aid coordination. The political role of that strategy was very important to bring other donors, and also mobilize our civil society and bring them all together in one place -- to have a national consensus on a poverty reduction strategy.

Although poverty has dropped considerably, it continues to be concentrated in rural areas. What has IDA done to change that?

One of the remnants of the past political culture – what I call a despotic political culture, which we had during the Soviet times, and even before that – is the tendency to concentrate power, whether it is economic power or political power, and apply it arbitrarily. Some old habits die hard. We're doing the reforms to diffuse power, but behavioral change is slow.

Because of that, decentralization is very important for us. We need to distribute more equitably all this high economic growth that I spoke about earlier. And one of the instruments of that is of course to try to penetrate into the rural areas, both in terms of the infrastructure, which the World Bank has been supporting through roads, irrigation, rural education and similar projects, but also through the IDA supported Social Investment Fund, which improves the social bargaining position of the rural population. Through this, rural communities are learning to articulate their needs and manage their own affairs. Implementing small projects has given them the confidence not to rely so much on central authority, and has helped move Armenia towards a new community-based, bottom-up system.

Ultimately, growth will reduce poverty because of these rural interventions. And now, in addition, the United States' Millennium Challenge Corporation is following the experience of IDA in Armenia, and will inject large resources into the rural sector using the same type of approaches. In fact, our goal is to eliminate extreme poverty altogether by the end of this decade.

What are some of the big challenges Armenia still faces?

In the early years of transition, we concentrated on reviving production, dictated by Armenia's comparative advantage. Armenia has done quite well on that front, but once you produce, you have to distribute the fruits of this production in a just way – not through some kind of a social engineering scheme, but rather through a democratic inclusive process. As a bottom line, that requires a good taxation system, where taxes are low but everybody pays, so that we mobilize sufficient resources internally.

But then we need to be able to distribute these resources to fund the social infrastructure which helps replenish the manpower that production requires. That means investment in a good health program, a good education system, a good pension scheme, and of course social protection for the most vulnerable. These are areas we are working on. But although we've

increased our budget allocations we still have a long way to go. For example in education, comprehensive education reform is fundamental if we are going to be competitive in this ever-globalizing world.

Institutions and manpower in Armenia are still very fragile. It's only 15 years that we've been going through the transition, and many of our institutions are yet to be developed. So we would have to, for some years to come, be able to have low-cost resources to develop these skills further, and also to allocate a considerable amount of resources to social programs. In Armenia we don't have many natural resources, so our main resource is the people.

What advice can you give other IDA countries on how to best use IDA resources?

Armenia has tried to engage IDA, and indeed the whole World Bank Group including MIGA and IFC, at the overall policy level for country economic management, at the sector level, and then at the project level, including project management which includes procurement, financial reporting and efficient use of resources. All of these are very key aspects of development – like a puzzle or a mosaic – and when you have some that are missing it shows and can cause waste or mismanagement. So a country should engage in various services of the World Bank Group and try to use all the resources available.

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