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Մարդկային զարգացման
միջազգային կենտրոն
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Policy Brief Համառոտագիր

**Աջակցություն քաղաքացիական
հասարակության զարգացման
քաղաքականության, կարգավորման և
ինստիտուցիոնալ բարեփոխումներին
Հայաստանում**

**Supporting Policy, Regulatory and
Institutional Reforms for Civil Society
Development in Armenia**

Սույն հրապարակումը հնարավոր է դարձել իրականացնել Զառնաբանության ինստիտուցիոնալ ձևաչափի իրականացման ներկայացուցչության կողմից իրականացվող Զառնաբանության հասարակության և տեղական ինքնակառավարման աջակցության ծրագրի, և Ամերիկայի Միացյալ Նահանգների բնակչության առատաձեռն աջակցության շնորհիվ՝ ԱՄՆ Միջազգային Զարգացման Գործակալության No AID-111-LA-10-00001 համագործակցության պայմանագրի DFD-A-00-09-00141-00 պայմանագրի շրջանակներում Մարդկային զարգացման կենտրոնի միջոցով: Սույնի բովանդակությունը, արտահայտված տեսակետերը և կարծիքները պատկանում են հեղինակներին՝ Մարդկային զարգացման միջազգային կենտրոնի պատասխանատվության տակ, և հնարավոր է, որ չհամընկնեն Զառնաբանության ինստիտուցիոնալ ձևաչափի իրականացման ներկայացուցչության, ԱՄՆ Միջազգային Զարգացման Գործակալության և ԱՄՆ կառավարության տեսակետերի հետ:

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D evelopment of Civil Society in Armenia: Policies for Added Value



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Endowment as a functional policy mechanism

When facing a new challenge, a youngster tends to invent a bicycle. In contrast, a wiser adult, who has already had enough time to find out the advantages of all kinds of bicycles, starts to put those together to construct the means of transportation that serves his purpose the best. The Republic of Armenia is not an experimenting youth anymore, who desperately tries to boost his self-confidence, but an established state that tries to ensure affluent and respectful life for its citizens and develop civil society.

Some states have already been successful in such a task. Therefore, Armenia can use the existing resources, a number of influential toolkits and lessons learnt from other similar efforts, to pave a smoother way towards its vision. Endowment is but one of the mechanisms, the implementation of which has in most cases successfully promoted the development of civil society organizations (CSO) in several developed countries. Endowment is essentially a donation of money or property to non-governmental organizations. It is organized mainly through charity or private funds.

Donation is not a novelty for the Armenian legal system. Foundations are institutions receiving and operating in Armenia for many years. However, there is a critical difference between foundations as defined and operating in Armenia and an endowment. In contrast to other donations, endowment funds imply not only an implementation of a specific project, but also a long-term investment with interest which is the only amount that can be used for funding activities of a CSO.

Why introduce the institute of endowment?

Long-term investment in state bonds is the crucial opportunity of endowment which makes this mechanism quite appealing for Armenian realities. It offers a vibrant sustainability tool in a context where the major impediment to the development of CSOs is their financial instability. However, this is not the only asset. The answers to the question “Why should the government be interested in introducing this institute?” may reveal a series of other advantages.

Introducing the concept of endowment in Armenia touches three main stakeholders: philanthropies, i.e. business companies and individual citizens; non-state actors and the government. What interests of all these stakeholders are at stake if this new cycle of relations is introduced?

Let’s start from the last stakeholder, the government. It is a truism that the main income source of the RA state budget is taxes, aka VAT, excise and income taxes. The major taxpayers are businesses, and the taxes they pay (or collect VAT and excise paid by consumer taxpayers) are accumulated in what we may call “the state’s tax pocket”. In order to establish an endowment, the government offers taxpayers tax exemption, which refers to the total amount that will have been donated to the endowment. This is possible if this sum is defined as an expense of the agent in which case the tax base is reduced. Businesses donate some money to an endowment fund, while indicating (or not), which types of activity they would prefer to see implemented with this money. Thus, these donations become tax-deductible. Meanwhile, an adequate CSO, if willing, can decide to take this funding opportunity, but has to do so if it is ready to meet two pre-conditions. First, it has to invest the endowment funds exclusively in long-term state bonds and use only the interest from this investment for its activities. Second, it has to take on commitments enhancing their transparency and accountability in disbursing this money.

It seems that this mechanism tends to address mostly the interests of philanthropies and CSOs. However, let’s not forget that there is another stakeholder, the government. Actually, what is

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interesting in this scheme is that the tax-deductible sums are invested back into the state “pocket”, but already through state bonds. Thus, one can claim that all three stakeholders win in these relations. The government does not lose anything, simply faces a shift of money from its one pocket to another. Businessmen acquire a possibility of tax deduction, and CSOs get an opportunity to act more independently and become self-sustainable.

Moreover, introduction of this mechanism will have an added social value, as it will create an opportunity for ensuring a continuous and consistent process, which will address the needs and will take account of the interests of various social groups. It will support the education of a citizen and the development of a pluralist society. Perhaps for decades this will be the first time when CSOs will get a chance to follow their mission and develop their own agendas based on the real needs and issues of their members, beneficiaries and constituencies. They will not be compelled anymore to modify and tailor those to the agendas of international organizations, which, as known, do not necessarily coincide with the priorities of the Armenian state and society. In such an environment additional commitments will not be regarded as redundant and meaningless. Instead, those will turn into a functional mechanism of communication with their social base.

Possible risks

It seems that we have depicted quite a rosy picture. Still, one of the most significant features of maturity is evaluation of risks of any initiative and development of adequate response mechanisms. In this case the serious predictable risks are two.

Perhaps the most significant challenge which may jeopardize the success of this initiative and even cancel out all the advantages offered by the institute of endowment are the narrow interests of state agencies involved in the cycle, and the subsequent inter-agency relations. The described cycle implies change in the activities of tax agencies, for instance. The scheme definitely reduces the contents of the pocket of these agencies, which are basically responsible for the “government pockets”. Attempts to satisfy narrow agency interests may humiliate the state interest as such. To prevent such possible developments, it is necessary to adopt a “supra-agency approach” through a clear and holistic understanding of the state interest. Such understanding is possible only if the process is championed by a statesperson who can focus exclusively on the overall state interest; who is ready to carry the whole burden of responsibility for addressing issues; who can transcend the logic of individual pockets; who can clearly envision the whole picture of the described shift in the pockets and consequent additional social value, and finally who can successfully address the frustration caused by neglected narrow interests of some agencies and recommend innovative and long-term solutions.

The second risk is not perhaps even a challenge but an additional commitment: taking responsibility for transparent and accountable activity. Unfortunately, few CSOs are ready for such a commitment. However, this may become litmus which will sift out the established and developing organizations from those after one-time and short-term targets.

The paper is elaborated based on the opinions passed by the participants of the discussion “Gaps and Challenges per Sectors of Civil Society in Armenia”, which took place on July 20, 2011. The roundtable discussion was attended by independent analysts, government officials, and representatives of the civil society and international organizations.

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