

## THE GOVERNANCE POTENTIAL OF NGOS AND MULTI-SECTORAL PARTNERSHIPS IN ARMENIAN PUBLIC SECTOR: LESSONS FROM MICROCREDIT NGOS OF BOSNIA AND HERZEGOVINA

*Anna Ohanyan  
Harvard University  
Syracuse University*

*Western models of the non-governmental organization (NGO) sector and of civil society have been the basis for many policy prescriptions in the post-Communist world. In such models the political role of the NGO sector and its independence from governmental structures are pronounced characteristics, and often come at the expense of broader governance capacities of NGOs and civil society. Challenging such approaches, the present paper develops a governance-focused model of the NGO sector in Armenia, one which is more responsive to the pressures of globalization that are taxing the public administrative functions of the Armenian state. The paper calls for achieving a proper balance of engagement for the NGO sector with state structures while concurrently maintaining the NGO sector's inherent flexibility. The paper draws from case studies of the microcredit sector of Bosnia and Herzegovina. It identifies instances of NGO-donor-state partnership developments, which have helped to strengthen the organizational basis of the NGO sector in the microcredit sphere. It also illustrates how the emergent NGO sector has strengthened the governance capacities of the state in Bosnia and Herzegovina by helping the latter to develop and manage the newly created microcredit industry in the country. The paper concludes with a discussion of the feasibility of such network-based NGO operations and the deployment of public-private partnerships in the Armenian context, and specifies policy recommendations to enhance the fabric of the Armenian NGO sector. The normative claim that the paper advances is to harness the untapped governance potential of NGOs.*

Keywords: NGOs, state, governance, microcredit, multi-sectoral partnerships

## I. INTRODUCTION

Academic as well as policy-making community view the vibrant civil society as a political engine of democratization, arguing that a strong civil society is essential to keep the government and the market accountable to the public. One of the key justifications for such reasoning was the assumption that political rigorous and vibrant civil society, also referred to as the third sector, is essential in order to counter-balance the state and the market. Such civil society has been argued to act as a watch-dog on the governmental policies<sup>1</sup>, to mobilize support for reform, and to exercise control over the distribution of resources by the governmental agencies. This line of reasoning has singled out the political role of the NGO sector, which I argue is an unbalanced view when applied in the context of Armenia. Deducing the governance capacities of the NGO sector to the political sphere alone I argue is a misleading strategy of NGO development in the post-Communist region.

One of the concerns of this work is to generate an expanded outlook on the role of NGOs in the process of economic and political transition of Armenian state. It seeks to highlight the contributions that NGOs are in a position to make in order to increase the institutional efficiency of Armenian state given the challenges of transition and globalization Armenia faces. It is imperative for the policy-makers and practitioners to recognize that the forces of globalization enriched and multiplied the number of agencies exercising governance capacities. In the globalization context the politics unfolds beyond the state and the governance capacities of non-state actors need to be effectively utilized by state agencies. In this respect, the NGOs stand out as one of such non-state actors with most direct social and economic impact and explicit, yet so far not capitalized governance capacities. I highlight some of the institutional arrangements, such as multi-sectoral partnerships, which can increase the responsiveness of the government while enhancing the efficiency of its public administration in a globalizing context. The NGOs, I argue, have important roles to play in adjusting the state structures to the pressing demands of transition.

I start out with challenging the narrow conceptualization of NGOs as instruments of political development and highlight the multiplicity of roles they can play in the context of Armenian governance. I then present the case study of microcredit NGOs in Bosnia and Herzegovina and highlight its characteristics. This section is followed by an overview of Armenian non-profit sector. Afterwards, I discuss the basis of comparison between the two cases and present the lessons that the Bosnian cases renders and examine its feasibility for Armenian context. The paper closed with a section on policy recommendation for the NGO development in Armenian context.

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<sup>1</sup> See Foley and Edwards, 1996; Hollifield and Jillson, 2000.

## **II. THE POLICY PROBLEM**

The view concerning the political importance of well developed civil society and consolidated NGO sector in creating conditions supportive of economic reforms and growth has been driving much of the discourse in international development. Such prescriptions feed off from Western theories of civil society, which if applied in the context of transitioning democracies, such as Armenia, are in need of major revisions. It is unarguable that NGOs are critical in mobilizing the public to press for reforms, articulating grass roots needs in the governmental policy making and creating transparency in governance. Such functional capacities of NGOs entail NGO autonomy and separation from the government - the hallmark of a sound civil society, some would argue. In the context of transitioning democracies, where the administrative capacities of the state are under immense fiscal and organizational stress, the value of NGO autonomy from the government is highly questionable, considering the high potential of NGOs to assist the government in various aspects of public administration, which may undermine NGO autonomy from the state and may entail some proximity between them. The possible co-optation of the NGO sector by the state is the threat that the critics of this view most frequently articulate.

Much of the Western discourse on NGO autonomy fails to acknowledge the uniqueness of transitioning democracies, and by extension, does not revise their models of NGO development to be furthered in such contexts. Specifically, despite the sweeping reforms of decentralization, the quality of the governance in Armenia remains weak. The Armenian statehood, which has been designed to cater to the planned economy, currently lacks the institutional and organizational flexibility to support the private sector, which is still in its formative years of operation. The de facto centralized governance and the lack of financial resources at the local levels only exacerbates the gap between the public and the governance, generating a governance vacuum, and a need for intermediary institutions between the public and the governance.

In this context, I argue, the governance capacities of the NGOs sector need to be revisited, and factored into the discourse of civil society and NGO development in transitioning countries such as Armenia. The NGO development needs to be viewed in tandem with reforming the Armenian statehood as it learns to cope with pressures of economic globalization and privatization. The immediate impact that the forces of globalization induce rests with pressures to cut down the social spending and public sector. The economic hardships of these states undermine its capacities to deliver public services to the population, which weakens their legitimacy in the eyes of the public.

More, in the case of the Armenian state, as well as any other post-Communist country, the reforms of decentralization did not necessarily contribute to increased public impact on the policy-making processes. The institutional outlets that would

enable public access to the governmental policy making remain weakly developed, which creates an organizational logic for partnerships between the NGOs and the local as well as central governments. In Armenia in particular the need for institutions that would intermediate between the public and the state remains unanswered. Viewing NGOs as institutional constructs that possess the necessary organizational resources to fill such a void may prove to be rewarding in terms of enhancing the responsiveness of the government to the public. Also, given the fragility of the private sector unable to effectively shoulder the costs of such cut-backs, a strong rationale for employing NGO sector in public service capacities has emerged.

The problem that should be the one in the center of policy debates is as follows: how to utilize the NGO sector in the public administration of Armenian state given the constraints of fiscal and organizational resources that the NGO sector as well as the state, face? What institutional arrangements should be advanced in order to capitalize on the existing strengths and advantages of the Armenian NGO sector, while concurrently reinforcing its bases in Armenian governance? What roles should the government play in this respect? What roles should the international donors play?

In the next section I present the case of the microcredit NGOs in Bosnia and Herzegovina, where some very creative and innovative models of NGO development has been employed by international community, specifically by the World Bank. I detail the opportunities for state governance that this model of NGO growth has created, and highlight those dimensions of this model which I think are relevant for the Armenian case.

### **III. NGO-DRIVEN MICROCREDIT SECTOR IN BOSNIA AND HERZEGOVINA**

The case of the NGO-driven microcredit sector in Bosnia and Herzegovina is selected in this study due to the rare efficiency of the multi-sectoral partnerships established between the NGOs and the World Bank – the key international financial institution operating in the country. The financing for the microcredit project of the World Bank came from the Governments of the Netherlands, Austria, Japan, Switzerland and Italy. Parallel financing for the project was provided by United Nations High Commissioner for Refugees (UNHCR). After conducting a pilot microcredit project, the World Bank started its full-scale operation in the microcredit sector in the December of 1996. The key objective of the program was to assist people to transition away from unemployment and dependency on humanitarian assistance to active employment and income generation (World Bank, 2000). The program also intended to jump-start the process of introducing financially viable microcredit institutions, which was envisioned to accomplish by contracting transnational and local NGOs and supplying them with finances and technical support. The extension of these goals would be to improve the business environment

for self-employment as well as the environment for non-bank microfinance institutions.

Initially 17 NGOs were contracted as the providers of small credits in Bosnia and Herzegovina. In 1997, after the Mid-term Review, the World Bank program, called the Local Initiatives Program (LIP), carried out a thorough financial, outreach and institutional performance analysis of these NGOs, after which it was decided to continue financing to only eight out of seventeen organizations. LIP employed this tactics in order to reinforce the institutional strength of the microcredit organizations, and to build its long-term institutional sustainability.

As of June 30<sup>th</sup>, 2000, LID disbursed 50,261 loans for total value of US67million. The number of active clients was 19,361, with 72 percent of urban and 28 percent rural communities. Twenty percent are internally-displaced, and 5% were returnees. The loans have been disbursed to low-income entrepreneurs throughout the country, with a typical client business being family-run with 1 to 5 employees. Generally the average loan size is less than \$1,200, which later on is slightly increased for repeat clients. Overall, LIP estimated the creation of 24,114 new jobs and safeguarding 40,740 existing jobs at a rate of one job per \$1000 lent (World Bank, 2000).

The direct impact of the LIP has been most forcefully felt in the informal sector. Thirty-four percent of the loans has been used for services, 45 percent has been used for trade, 13 percent supported the agriculture and the remaining 8 percent strengthened the small-scale production.

The four out of nine NGOs working with the World Bank have been found by transnational NGOs, with the other four being local NGOs. CARE, World Vision, Women World Banking and Mercy Corps are the transnational NGOs with initiated microcredit projects that were further localized and registered as local NGOs operating either in the RS or in the Federation. AMK, LOK, Sunrise, Benefit, and Sinergija are the local NGOs, which have been subcontracted by the World Bank for its microcredit project.

The decision to contract NGOs for the purposes of microcredit delivery has transpired via careful assessment studies and deliberations carried out by the World Bank. The most obvious competitors for NGOs in winning the World Bank contracts have been the commercial banks and other types of financial institutions. However, the policy-makers and practitioners on the ground have recognized the marked advantages of the NGOs in terms of their ability to outreach, and voice the public concerns<sup>2</sup>.

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<sup>2</sup> Tinjic, Goran. World Bank. Personal Interview with the author. Sarajevo, Bosnia and Herzegovina. July 2001. Sarah Forster. World Bank. Phone Interview with the Author. London, Great Britain. August, 2002.

Although other legal entities (commercial banks, private agencies) were also eligible to apply and participate in a competitive selection process, NGOs demonstrated a better understanding of the needs of target borrowers and had other comparative advantages (outreach, reputation in communities, commitment to microcredit, etc.) that led the project team to sign contracts with NGOs as providers of microcredit services to low-income entrepreneurs<sup>3</sup>.

What the NGO sector in Bosnia and Herzegovina lacked was the financial and business skills and management capacities.<sup>4</sup> Moreover, these skills varied from one NGO to other. Sarah Forster,<sup>5</sup> affiliated with the World Bank at the time and one of the key managers of the project, acknowledges the difficulty for international public institutions in working with the local NGOs. Working with transnational NGOs has undisputed advantages, and the level of professionalism, the level of transparency and efficiency in management practices are only the few that attract international donors. Forster notes:

I always felt that, in a way, colonialism in the aid works. Donors fund international NGOs easier. We speak the same language. To build local NGOs to have to be able to cross the cultural divide.

The willingness to strengthen the existing local NGOs and build the new ones is one of the most significant contributions of the World Bank project. Forster of the World Bank acknowledges that LIP was a very unusual project for the World Bank, as it involved close involvement of the Bank in the project management. As such, World Bank has determined the terms of the engagement between the NGO sector in Bosnia and the international donor community. By combining financial disbursement with provision of technical assistance and know-how of the sector the Bank has managed to build the local capacities for the microcredit sector. As such, it ensured the institutional sustainability that will support the sector after the international donors and NGOs exit from the country.

Moreover, the Bank stressed the capacity building component of the microcredit project with an expectation that such local NGOs would also develop advocacy skills to lobby the government of Bosnia and Herzegovina for a legal environment that is more supportive to microcredit sector. As a result, both Entities of the Country enacted laws on microcredit, which contributed to the legitimacy of the sector in the eyes of the public.

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<sup>3</sup> World Bank Report, 2000, pp 12.

<sup>4</sup> Ibid.

<sup>5</sup> Phone interview with the Sarah Foster, 2002.

Although most of the local NGOs which work with the World Bank may have compromised their initial objectives to carry out a World Bank project, a major criticism that the NGO community faces, they, however, have emerged as efficient policy units capable to engage in policy implementation and effectively diminish the gap between the public and the government. The cumulative impact of the World Bank project in Bosnia is the creation of new “breed” of NGOs, which created institutional enclaves of responsive and efficient policy process. In the case of microcredit sector the World Bank transformed the existing local NGOs into financial intermediaries, which has expanded the institutional spectrum of financial institutions in Bosnia. The NGOs play an important role in assisting economically marginalized communities to integrate into the economic spectrum by linking them to sources of financing alternative to the banking sector. In short, one can argue that the partnerships between the NGOs and the World Bank closed the gap between the formal financial sector and the growing needs of micro, small and medium entrepreneurs. This is an excellent case of institutional adjustment accomplished by the NGO sector.

In order to enhance the absorptive capacity of the government of BiH and to create governmental structures of regulation and monitoring of the emergent microcredit sector the World Bank has initiated the creation of Implementation Units within both Entities of Bosnia and Herzegovina. The Implementation Units oversee the NGO operation, assist them with training and seminars in various issue areas, and most importantly, assure the accountability of the NGOs to the international donors. For the purposes of the microcredit industry tight monitoring facilitates high financial performance standards. As such, the upwards accountability to governmental agencies is an important precondition for the performance of NGOs as policy actors. At the same time, it has created an institutional proximity between the microcredit NGOs and the government.<sup>6</sup>

One of the major characteristics of the microcredit sector in Bosnia and Herzegovina is the above-mentioned upward accountability of the Bosnian NGOs to their international donors. The accountability to international donors contributed to the maturity of the microcredit industry and the capacity building of the NGOs, thus making them more efficient policy players within and outside of Bosnia and Herzegovina. Moreover, it has brought the beneficiaries closer to the institutions of global governance, represented by the international organizations. However, as the professionalization of the microcredit NGOs increased, their linkages and relationships to each other have weakened.

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<sup>6</sup> The major implication of such an engagement for the NGO sector is the loss of autonomy, which for the microcredit sector is not politically quite consequential. However, a caution is needed when such a model is endorsed for NGOs which are concerned with issues of political development, rather than economic growth and social progress.

The horizontal linkages, the relationships between the NGOs, is a precondition for a strong local, grass roots voice in the policy-making processes, and is essential to ensure public representation in the political process. L. David Brown and Jonathan Fox (1999, pp. 16) note:

...coalition organizers are wise to find or foster horizontal linkages among constituencies in order to enable credible local voices. Where social capital, in the form of grassroots federations, already exists, as in the Philippines and Ecuador cases, the coalition can build on genuine local representation. The local, regional and national coalitions and shared decision-making in the Philippines enabled ongoing consultations with indigenous interests to maintain coalition legitimacy.

Because of the lack of strong relationships and inter-NGO ties in Bosnia and Herzegovina the sector remains poorly represented in the political processes within the country. With the help of the World Bank office in Bosnia and Herzegovina, the microcredit NGOs joined forces to form the Association of Microfinance Institutions (AMFI) - an agency that some of the local practitioners argue has been the driving force in lobbying the national government for microfinance legislation. Other accounts question the political weight of the association as an interest group, arguing that it is the World Bank that has managed to secure microfinance Law in Both Entities.<sup>7</sup> Regardless of one's position taken on this issue, it remains undisputed that the microcredit NGOs have not crystallized as a significant political force capable to access and challenge the political system at the national and Entity level.

Two major reasons account for such an outcome. First, the earlier discussed vertical accountability lines that the NGOs have developed with their donors, weakened their accountability to each other and to the public. Second, the microcredit sector in BiH remains highly competitive despite the growing need of microcredit that exists within the public. At this point the microcredit sector serves only about the 1% of the population.<sup>8</sup> The competition between the NGOs, therefore, poses a serious challenge for them to tighten their relationships with each other in order to present a strong front within the political system of Bosnian governance.

This model of NGO-international donor community stands out also because of the multiplicity of bi-lateral and multi-lateral donor agencies supporting few NGOs as well as their close involvement in the program management. As such, these agencies created clusters of policy networks and multi-sectoral partnerships across the country, which culminated in an institutional change of the governance structures

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<sup>7</sup> PlanetRating (2002). Partner.

<sup>8</sup> PlanetRating (2001). Prizma

within the country. The organizational logic of multi-sectoral partnerships in post-conflict and post-Communist regions reflects the weakness of administrative capacities of the state. It reflects the lack of financial and organizational resources that the state faces in order to carry out a governance that is adequate and responsive to the emergent market economy. Multi-sectoral partnerships between the non-profit sector and the international private and public donor agencies transfer funding from Western countries as well as technical assistance in public administration and governance.<sup>9</sup>

A major drawback that multi-sectoral partnerships render for the NGO sector is the multiple stakeholder problem. Having multiple donors for the same project creates different types of pressures on the NGOs. Aside from the World Bank, myriad of other donor organizations lend their financial support to microcredit NGOs operating in Bosnia and Herzegovina. The second most important one is the United Nations Higher Commissioner for Refugees. Interestingly, UNHCR also provides funding for microcredit to the same NGOs that work via World Bank. Early on the organizational expertise of the WB in microcredit has been acknowledged by all the donors, which is why the UNHCR started channeling its funding to microcredit NGOs via the organizational networks established by the World Bank. Although this approach to credit delivery allowed UNHCR to save on transaction costs, it however, limited the ability of UNHCR to translate its goals into implementation stage. Specifically, unlike the World Bank, UNHCR was more concerned with targeting certain social groups, such as refugees, returnees, minorities, which increases the costs of credit delivery and postpones the financial sustainability of microcredit organizations.<sup>10</sup> On the contrary, the World Bank endorses the financial and institutional sustainability as a priority for microcredit sector, which it justifies by the importance of providing credit on a long-term basis – an objective that WB argues can be achieved only via financially sustainable organizations.

Accountability to different donors undercuts the governance capacities of NGOs. In order to effectively integrate NGOs into the institutional spectrum of governance in a given country, their ability to generate policies that are in accord with a comprehensive framework for development and growth is essential. As such, the transnational development of the NGO sector via deployment of partnerships while contributes to the professionalization of the sector, also makes the NGO integration with governmental structures less effective.

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<sup>9</sup> In the context of Bosnia, aside from the World Bank range of other multi-lateral and bi-lateral agencies, such as the UNHCR, US Department of Agriculture, US Bureau of Population and Refugee Migration have been leading supporters of the microcredit sector.

<sup>10</sup> Sarah Forster (2002). World Bank. Phone Interview with the Author. Sean Kline (2001). Prizma. Personal Interview with the Author. Mostar, Bosnia and Herzegovina

#### **IV. BASIS OF COMPARISON: LESSONS LEARNED FOR THE NGO SECTOR IN ARMENIA**

##### **A. NGO Sector in Armenia**

The Bosnian experience renders important lessons regarding the utilization of the NGO sector in governance capacities in a given country. Before discussing the feasibility of such lessons for Armenian context, I present a brief overview of the Armenian NGO sector, the patterns of its growth, limitations and opportunities it presents for Armenian governance.

The number of NGOs in Armenia grew radically over the past few years. According to some cursory accounts, there are around 3,000 NGOs in Armenia. The USAID-sponsored report indicates that in 1999 there were 1800 NGOs operating in Armenia, and 2000 in the year 2000, only half of which have been active. The USAID has been monitoring the patterns of growth of the NGO sector in Armenia, among a host of other countries in the region. The study evaluated the growth of the NGO sector along the following criteria: the legal environment, the organizational capacity, financial viability, advocacy, service provision, public image and infrastructure.

It appears from the study that the legal environment of the NGO sector matured drastically over the past few years, although significant scope of improvement still exists. The law, which has been enacted in 1996, allows the NGOs to open bank accounts and to operate legally. However, the local governments do not possess the necessary infrastructure to facilitate the registration of the NGOs in the remote areas, outside of the capital, which created transportation costs for the NGOs outside of Yerevan. More, the law recognized only one type of NGOs - public organizations, and prevented the NGO operation in economic activities. The tax law does not provide any incentives, such as tax-deductions, for the private sector to make donations and support the highly fragile NGO sector in Armenia. As a result, most of the NGOs, not having the local sources of financing, became dependent on international donor funding, which has made them directly accountable to the international community, without being able or willing to respond to community needs (unless they are pursued by the international donors).

A new NGO law, which complied with the Civil Code and Council of Europe requirements was passed in December 2001 (USAID 2001). Unfortunately, it continues to prohibit the NGO operation in economic activities and does not provide tax-breaks for individuals and businesses making donations. As such, the vast organizational and technical resources of the NGO sector remain underutilized for the governance processes in Armenia.

Organizational strength of the NGOs is highly diverse, ranging from so called “dormant” NGOs (registered but inactive) to highly transparent organizations with

clearly defined missions and goals. Most of the NGOs generally pursue programs that are very varied, which indicates that sporadic nature of the NGO operation and the low levels of specialization. Only recently have the NGOs learned to tailor their programs to their constituencies. The links to the grassroots are scant, which makes them not reliable in representing the public in the political system of Armenia. The links among the NGOs and instances of coalition-building among them are also rare. The scarcity of resources by the international donors produces competition among them, which also weakens the consolidation and maturation of the sector. The lack of an institutional infrastructure to address some of these limitations is nonexistent in Armenia, which has been the major driving force of NGO growth in Bosnia and Herzegovina.

Unlike in Armenia, Bosnian NGOs in microcredit have enjoyed the intensive and well-concerted efforts of capacity building, carried out by the World Bank and other international donor agencies. Lack of a strong central government has prompted these agencies to build the NGO sector ground-up in order to improve the quality of governance in the country.

In the Armenian case the donor involvement has been primarily limited to provision of funding, and instances of capacity building of the NGO sector are rare. Only recently new types of organizations in the NGO sector have emerged. The USAID report of 2001 documents the emergence of Intermediary Support Organizations (ISO), which are internationally funded agencies to provide training in grant-writing and other areas of capacity building to the NGOs. Unfortunately, the local NGOs lack the resources to utilize such training, and most frequently rely on local trainers that provide their services on a voluntary basis. The slow trends of the NGO sector growth partly complicate the prospects of linking them to the governmental agencies and utilizing them as organizations of public policy and administration.

Despite such limitations, the NGO sector in Armenia is currently active in various aspects of service provision such areas as the health care, food, clothing for socially vulnerable groups including refugees and elderly and disabled people. Unfortunately, most of such service provision is carried out in an ad-hoc manner, which fails to add up to a comprehensive policy framework. According to the USAID 2000 report (USAID, 2001), the government recognizes the contributions of the NGO sector in providing services that the government is unable to. However, such recognition is yet to prompt the government to seek the partnership opportunities with the NGO sector in its social service provision and/or economic development.

## **B. Basis of Comparison**

The key ground of comparison between Armenia and BiH is the top-down pattern of civil society development by international organizations. However, they differ by the instruments and strategies the international community utilized in developing NGO

sector in both countries. In Bosnian microcredit sector there was a comprehensive framework of NGO development in place, which is not the case in Armenia. Unlike in Armenia, in BiH the donor involvement in project implementation has been more extensive, which contributes to capacity building of the Bosnian NGO sector. As such, the NGO sector in microcredit is a more efficient policy player in Bosnian governance, which is not the case in Armenia.

The NGO sector development in Armenia, as well as in BiH, has largely been a top-down process. International community created large number of organizations in both countries, which carries its opportunities and limitations for the fabric of democratic governance in a given country. The created NGOs benefit from the transfer of knowledge, practices and in most cases, financing. Such top-down trends of civil society development have marked advantages, because they contribute to the professionalization of the NGO sector, link these newly created NGOs to transnational sources of financing, provide them with technical capacity building and assist them with transfer of fixed assets. However, such patterns of NGO development fail to provide the public legitimacy and public accountability, which the Armenian civil society seems to lack. The USAID-sponsored study of the NGO sector attests that there is a lack of understanding of the NGO role among the population at large (USAID, 2001), and the media outlets so far have been the main channels to disseminate information about the NGO activities. Interestingly, the transnational embeddedness of the microcredit NGOs in Bosnia did not prevent the formation of links with the grassroots. As a matter of fact, the ability to work with the public has been largely cultivated by some of the international donors with whom the NGOs have been working with.

One of the major dangers of top-down approach of NGO development is, what I call, resultant fragmented governance. NGOs become linked to transnational networks of international public and private donor agencies, some of which have a highly specialized agendas and missions, such as human rights and environmental protection, among others. Although these missions are undoubtedly critical, the timing of their implementation in Armenian context, and the form of their implementation is a matter of dispute. The resultant fragmentation of Armenian society narrows the prospects of developing comprehensive policy frameworks, which could contribute to the more efficient utilization of foreign aid allocated to Armenia.

Moreover, the fragmented global governance, of which the NGOs become part of, undermines the political value of the civil society. The fragmented governance, developed, managed and maintained by international public institutions, quite frequently skews away the NGO accountability away from its grassroots stakeholders towards international agencies. By extension, this jeopardizes the legitimacy of the civil society organizations in Armenian context. Due to the lack of local resources, the NGOs become financially dependent on the foreign sources and

accountable to external stakeholders. As such, this fragmented governance makes the policy development process responsive to transnational sources of power rather than local needs and public initiatives. In short, the top-down pattern of governance generates a trade-off by contributing to the capacity building in the NGO sector and its professionalization, while weakening its public accountability. However, this trend is highly contingent on the type of the NGOs, and the type of the transnational network it is supported by, which are issues that I have already covered elsewhere (Ohanyan, 2002). In short, the links of the NGO sector to international donors poses challenges and creates opportunities for the fabric of governance in Armenia.

The second basis of comparison between the two countries rests with the weakness of the administrative capacities of the statehood in both countries, in face of pressures induced by economic and political globalization. The international public institutions operating in BH played a major role in trying to remedy the gaps in governance. Development of multisectoral partnerships between these institutions and the local and transnational NGOs has been a major strategy of reform in BiH. This model of NGO growth via partnership development with international community and the state that has been carried out in BiH, renders few implications for the administrative structures of the state, the NGO sector and the quality of governance in the country in general.

Bosnian experience stands out because it shows how NGOs can be integrated into the institutional architecture of governance within the country, which is first of all a conceptual task for practitioners and policy-makers to carry out. The important implication of such a conceptual change is the acknowledgement of the multiple roles that NGOs can potentially play for harnessing economic growth in Armenian context. Specifically, recognizing the potential in project micro-management and service delivery that NGOs have already demonstrated in other countries is essential. In such cases, extending governmental contracts to the NGO sector will not only increase the efficiency of policy implementation, but will also strengthen the financial basis of the NGO sector.

Utilizing NGOs for public administration purposes is mutually beneficial and equally appealing to the state. The Government capacity for policy development and reform implementation remains limited in Armenia,<sup>11</sup> which is a more urgent problem for the Bosnian state. Bosnia approached to this problem adjusting its institutional structure to the emergent needs of the public, and the NGOs were utilized for this purpose. In the Bosnian cases the networks of NGOs and international public institutions created institutional arrangements alternative to the state, which were very effective in policy formulation and its implementation. Carrying out impact

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<sup>11</sup> Armenia - SAC IV. Region: Europe and Central Asia region. Sector: Public Sector Management adjustment. Report No. PID9379.

assessment studies and pilot projects allowed these networks to capture the emergent public needs of social development, which the state structures have not been able to address. As a result, the microcredit project eventuated in the establishment of the Policy Implementation Units within both Entities of BiH, which one can clearly argue reflects the important impact that these networks had even on the structure of the statehood. The establishment of the Units and linking them to the NGO sector was a bold move in enhancing the public administrative capacities of the Bosnian state.

The key lesson to draw from this experience is the institutional change in governance structures, which was carried out outside of the government, and had bottom-up direction. Building institutions ground up and then linking them to the state structures is a model of an institutional change that is worth of a more rigorous treatment both by scholars and practitioners. The role of the NGO sector in this approach of reforming the statehood is undisputed.

In the Armenian context the weakness of the administrative capacities of the state is perpetuated by the lack of a comprehensive decentralization policy, which the World Bank reports have highlighted as an impending problem for the social development and economic growth of Armenia.<sup>12</sup> The weakness of the institutional structures at the local levels undermines the management capacities of the state and deteriorates the quality of access to social services. Moreover, the isolation of the government (central and local) from the public is also perpetuated by the lack of viable community-based institutions for partnerships with local governments. The NGO sector is invaluable to in acting as a mediator between the public and the government, which can be accomplished by cultivating political willingness of participation among the public, providing them with tools and strategies to access at least the local levels of government. The proximity of the NGOs to the public and their organizational flexibility are the key resources that can be particularly helpful in addressing this public-government gap in Armenia, and capitalizing on these resources is critical. Moreover, most of the NGOs have some type of connection and affiliation with transnational NGOs. Quite frequently they receive training in micro-management in various issue areas, as well as different type of technical assistance. Utilizing NGOs for public administration is an excellent strategy to cut costs in providing technical assistance to governmental officials at the service delivery levels.

In sum, the Bosnian experience illustrates that NGOs possess important governance capacities. It speaks to the awareness that the NGOs, if factored into the post-Cold war institutional architecture of governance, can make the economic development of a given country more efficient, and the political process of governmental policy making more responsive to the public. Development of mutli-sectoral, ideally

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<sup>12</sup> Ibid.

symbiotic, partnerships between the NGO sector, the international donor community and the government - the approach to NGO growth in Bosnian case - is a strategy worth of more thorough treatment by academics and practitioners alike.

Bosnian experience also underlines that key rationale for utilizing NGO sector in governance capacities is their ability to mediate between the public and the government, and to bring the community closer to the formal structures of governance in Armenia. In Armenia several factors hinder the NGO growth and its integration in the formal governance infrastructure of Armenia.

First, the legal environment of the NGO sector curtails the potential of NGOs in areas of economic growth and social development. The legal environment of NGOs has isolated them from governance processes, which hindered the efficiency of micromanagement within the heavily centralized governance that dominates in Armenia. The second drawback, and the immediate implication of such an institutional isolation of the NGO sector is the lack of local resources for NGOs to mobilize, which has made them dependent on foreign financing and directly accountable to international community. Third, the strategies of NGO development employed by the international community are rather superficial: in the absence of donor involvement in the process of project implementation does little to build up the local NGO sector in Armenia. The NGO growth so far has followed an ad-hoc pattern of growth, poorly linked to any policy processes of Armenian government.

### **C. Policy Recommendations for Armenian NGO sector**

Maintaining the institutional isolation of the NGO sector from the policy process is to waste the resources that NGOs sector in Armenia has been deploying over the past several years. I call for recognizing NGOs as policy actors and insure their access to the governmental policy-making, provided that the weakness of the organizational capacity of the NGO sector will be addressed. Towards that end, several areas of policy recommendations for Armenia transpire from the analysis of the microcredit NGOs in Bosnia and Herzegovina.

#### *Legal and fiscal dimensions*

The first proposal, which already has been stressed by number of practitioners and scholar in Armenia and abroad, rests with creating a legal framework conducive to NGO operation. Creation of tax breaks for individual and business contribution to NGO sector is an essential step, because it will create some local sources for NGO operation. This measure is urgent for reasons of accountability. Since it is the international community that generates most of the financial support for the NGO sector, it has come to determine the types of programs and goals for the NGO sector to pursue.

The appropriate tax reform will create incentives for the private sector to channel funding to NGOs to deliver the public goods which the state is unable to do: clean up of the environment, identifying the needy and health care provision, working with schools in revising the curriculum, job creation, assisting the small entrepreneurs with linking them to foreign markets, are among the potential areas of NGO growth.

The NGO sector is donor driven, and less responsive to the grassroots. As such, the international funding undermines the capacity of the NGO sector to represent the public in the policy processes at the governmental level. The formation of local levels of support, no matter how little, will at least make the NGOs somewhat accountable to the grassroots, and help to link them to the governmental structures.

The second legal measure is to permit the NGO operations in economic activities. This will allow the NGOs to enter in contractual relationships with the government and more actively implement different programs on economic and social development. More, the well developed NGO sector has an important role to play for the private sector growth. Carrying out training and seminar on organizational development, entrepreneurship, small and medium enterprise development, providing the public with skills of entrepreneurship and disseminating information on the laws and regulations of private sector, are only some of the potential areas of NGO activity related to economic sphere.

The third legal measure will rest with institutionalizing the links between the NGOs and the local and central level government. Extending bids for project implementation to the NGO sector will not only enhance the NGO sector by generating additional income, but also will enhance the policy implementation capacities of the government.

#### *Technical dimension*

One of the obstacles in utilizing NGOs in public policy capacity is the weakness of the NGO sector. The Bosnian experience demonstrates that the international donor community has important roles to play towards this end. Specifically, donor oversight over the program implementation will build the NGO capacities in a given country. Over time, the growth and consolidation of the NGO sector will result in its increased financial sustainability and will lessen the reliance on international donors. Financial assistance to NGOs will not translate into lasting policy outcomes unless combined with technical assistance and organizational development. The donor oversight is particularly important when the local NGOs are concerned. USAID sponsored study on NGO sector of Armenia has revealed that upon the completion of the grants secured from international sources, very few of the projects initiated by partnerships between Armenian NGOs and their transnational counterparts manage to endure. On the contrary, the World Bank involvement in the microcredit sector of Bosnia resulted in building NGOs from bottom-up, and more importantly, helped to

achieve the financial and institutional sustainability of the microcredit NGOs in Bosnia and Herzegovina.

In sum, the following policy recommendations transpire from this study:

- Improvement of the legal environment of NGO sector at the central and local levels of government.
- Creation of local sources of support by providing tax breaks to individuals and businesses for philanthropic contributions.
- Permitting NGO operation in economic activities and extending governmental contracts of service delivery to the NGO sector.
- Packaging international financing to NGOs with technical trainings.
- Coordinating policies of the government and international community pertaining to the NGO growth and its proper role in Armenian governance.
- Institutionalizing links between the NGOs and local levels of governments.
- Delegating policy implementation power away from the government to multi-sectoral partnerships of NGOs and international organizations. This is essential to enhance the public administration capacities of Armenian state.

## V. CONCLUSION

The Bosnian experience reveals the importance of NGOs in public policy roles, and demonstrates that viewing them simply as watchdog organizations deduces their economic and social development potential to only political sphere. Bosnian experience also demonstrates that the public policy capacities of NGOs can be enhanced through developing multisectoral partnerships between the NGO sector, the international donor community and the governmental agencies.

The rationale for the NGOs and multisectoral partnerships both in the Bosnian and Armenian cases is justified by the inefficiencies of the formal governance structures to respond to public needs and to reach out the grass roots level. The immediate political implication of such a detachment from the public is the public apathy and the lack of political participation of the public in the policy processes at the governmental level. Put differently, the economic and social roles of the NGOs are directly linked to their political capacities of triggering public participation and democratization of governance. In this respect, the key lesson that the academics and

practitioners can draw from Bosnian and Armenian case is the interrelationship and the linkages between the economic, social and political roles of the NGO sector in the process of enhancing governance in a given country.

Unfortunately, at this point there is a lack of a comprehensive framework for utilizing the NGO sector in all three capacities, which continues to be missed opportunities towards facilitating the consolidation of market economy from bottom-up. The Bosnian experience demonstrates how NGOs act as intermediary institutions between the public and the governmental structures, and as such produce ground-up institutional change in the governmental structures making them more responsive to the emergent socio-economic context. In the microcredit sector of BiH, the NGOs operated to create new types of financial institutions, worked to develop entrepreneurship within the public, and as such, contributed to the creation of market structure from bottom-up.

The need for a comprehensive framework for NGO development is also essential for defining the terms of engagement between the government and the international donor community. Currently, the programmatic development in Armenia at the NGO level has been driven by the international donors, which stand out with the distinctiveness of their own organizational goals and missions. As such, the socio-economic development in Armenia at the NGO level is more responsive to the organizational goals and needs of the international donor community than to the public. Participatory development, which factors the local input into policy formulation, implementation and evaluation, has recently taken root in the programmatic engagement of the World Bank. This is a new approach to international development, which needs to be materialized in the Armenian context. Carrying out range of institutional and organizational changes within the legal framework governing the NGO operation is the most direct instrument towards that goal. It is the most direct avenue towards revising the terms of engagement between the NGO and the international community, and the Armenian public is the key beneficiary of such a change.

Multiple reports produced by practitioners recognize the detachment of the government from its public in Armenia, despite the recent reforms in decentralization of governance. While the lack of resources at the local level governments is frequently cited as the key obstacle towards decentralized operation of governance in Armenia, it is the lack of public knowledge, public access and public incentives to hold these local levels of government accountable that I believe truly matters. The lack of “demand” from the public prevents the “supply” of strong institutions at the local levels of government. Creation of institutions intermediating between the public and the local levels of government is essential to stimulate public participation in the local levels of governance. The Bosnian experience demonstrates that NGOs have important roles towards this end.

Moreover, the coverage of the governmental infrastructure of transitioning and developing countries is very limited, and large segments of population remain poorly integrated into society. Building institutions that can intermedicate the gap between the public and the state, as is the case with the microcredit NGOs in Bosnia and Herzegovina, helps to facilitate such integration and in some cases even steer the state in the right direction.

The practice of Western Europe and the United States directly speak to the institutional roles of the NGOs. Very often NGOs obtain governmental contracts to deliver certain type of service to the public, which at times has been criticized as damaging the state accountability to the public. At the same time, the practitioners and policy-makers around the world have taken note of the organizational advantages of the NGO sector in public administration. Their small scale, good outreach capacities and organizational flexibility may prove to be invaluable for centralized states and may facilitate their public administrative functions. In this respect, experimenting with partnerships between the NGOs and the appropriate Ministries in terms of policy formulation and implementation may radically enhance the responsiveness of Armenian state to the public. The utilization of such partnerships in policy-making has been widely explored in industrialized countries as well.<sup>13</sup>

However, the rationale of utilizing NGOs in governance capacities will fail to materialize unless the organizational capacities of the NGOs are strengthened. The provision of a legal environment that recognizes NGOs as potential partners in public administration and policy development as well as generating local sources of support through tax breaks are the two steps that the government can undertake. The international donor community has to revise its funding provisions and be more closely involved in program implementation. The Bosnian experience shows that the donor oversight in the initial stages of program implementation is conducive to building the capacities of the NGO sector.

In sum, the suggested measures will amount to a public sector reform, where the NGOs have an important role to play. This model of NGO development calls for new terms of engagement with the state, which however, does not equate to abandoning NGO autonomy and organizational missions. However, although political autonomy of the NGO sector is an important political trademark of civil society, in the context of post-Communist states some engagement with the state is essential in order to build the public administration capacities of the state.

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<sup>13</sup> Lester Salamon, 1995, *Partners in public service: government-non-profit relations in the modern welfare state*, Johns Hopkins University Press: Baltimore, MD.

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