

The problems of sustainable development in transition

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Abstract

During the transition to free market relationship, Armenia has had not only Economic, and Social downfall, but also worsening of ecological situation. However, some positive shifts in Economy and society have created some belief, that basis for the future sustainable development is going to be formed. Sustainable development, in fact, is becoming as new concept for forecasting and future development in all the sectors and spheres of Armenia. Although, we should state the transition problems of sustainable development are under way. Former Economic policy put less attention to sustainable development, especially ecological tasks and Eco policy.

This paper is devoted to evolution of concept of sustainable development in the Armenia and its specifications, due to Transition.

Under newly developed conditions, Eco policy includes the legal framework of charging for using natural resources, establishment of principle- “polluter should pay “, adoption of flexible system of taxing, and subsidizing of ecology suffering and saving productions.

These mentioned principles are lying in the basis of Sustainable Development. It will also help and improve sustainable development of protection of natural resources in Armenia.

Introduction

Sustainable development is defined as the achievement of continued economic and social development without detriment to the environment and natural resources. The quality of future human activity and development is increasingly seen as being dependent on maintaining this balance [1].

Sustainability is about living and working in ways that meet and balance existing environmental, economic and social needs without compromising the well being of future generations. The transition to sustainable development is beneficial for today's society and builds a more secure future for our children.

Many activities, problems, and solutions in the field of sustainability are interconnected. The challenge of sustainability reporting is to cluster all the relevant information on various issues and demonstrate the connections between seemingly disparate factors.

A reassessment of traditional, established modes of production and consumption, in particular in the developed world, are at the very heart of the drive towards sustainable development. As many of the theories and practice relating to sustainability are new or still evolving, a need exists, and is increasingly being met, for sites to exchange information, research, and insights.

Sustainable development is first and foremost a legacy issue. It's about the kind of world we want to leave for posterity. Stated so baldly, it invites the response satirized by Kenneth Boulding - "What has posterity done for me lately?" But when put in more personal terms-"What sort of world would we like to leave for our children and their grandchildren?"-it evokes a very different response [2].

Legacy issues are well understood in relation to money and economic considerations: "Build up the capital, live off the interest"[3]. This is a motto for both personal and business financial success. Increasingly we are realizing that similar principles apply to the "natural capital." And some policy makers are beginning to extend this reasoning to social / human capital as well. One of the more creative definitions of sustainable development builds precisely on this notion of three kinds of capital: economic, physical, and social/human. From this perspective, which is used by the World Bank, sustainable development entails passing on to future generations an equal or preferably enhanced stock of economic, natural, social and human capital [4]. Implementation of legislation in light of Sustainable Development, to establish the adequate legal climate and stimulating financial and economic mechanisms are become urgent. The existing principle of "the polluter pays" should be supplemented with tax privileges granted for waste-utilizing production and for other environmentally- oriented initiatives and with long-term loans for those who introduce environmental protection equipment and environmentally safe and appropriate technologies.

In fact, sustainable development proposes a new paradigm of decision making for all sectors of society. It entails a new perspective on present-day issues and challenges, and requires a better appreciation of the complex interconnections between the economic, social and environmental aspects of current challenges. For sustainable development there is great need to integrate 1) environmental policies, which should be socially and economically feasible; 2) social policies - environmentally and economically feasible; and at last 3) economic policies- socially and environmentally feasible.

It should be expected that the social cost of any economic and social reforms, and of their consequences turned out to be very high. The imperfect and continuing nature of reforms and their implementation mechanisms makes the public so far mainly the negative impact of transformation, accompanied by drastic decline in the living standard of population, mass unemployment, social polarization, impoverishment of the majority of the population, the deterioration of the demographic situation and the level of migration. Viewing issues through the sustainable development lens also reveals real costs that were previously hidden. These costs eventually can be addressed efficiently, as illustrated by the problems of hazardous waste sites, lost fisheries, brown fields, ozone depletion, global climate change, and a host of other issues.

Adopting a sustainable development perspective amounts to looking at current problems through a new lens that broadens vision from a singular focus on only the economic or environmental or social aspects of an issue; to an integrated consideration of all three. The sustainable development lens also focuses attention on the horizons of the future as a way of seeing approaches that are more desirable to the problems of the present.

The result is much better decision making that will lead to substantial savings in money and resources, because increasing the boundaries of decision-making reveals opportunities for synergy that went unrecognized.

Sustainability also requires feedback systems that allow all three of its core elements - environment, economy and society/community - to be tracked simultaneously. The systems for monitoring, auditing and evaluating decisions in this triple manner are now emerging. At the national level, plans are underway to develop and public should support leadership to protect the environment, particularly when the links to human health are evident. There is a growing public awareness of the urgent need to repair and build social/human capital, confront problems of poverty and homelessness, and ensure a healthy, well-educated citizenry. Governments can find numerous opportunities for win-win policies that are economically sound, environmentally friendly, and socially responsible. Governments are the custodians of the public interest, the stewards of the public domain. It should take actions that will safeguard the legacy.

Sustainable developments features in Armenia

How is sustainable development concept realization going on in Armenia, as a country in Transition?

Armenia is a country in Transition. This term is used to denote the time-span during which economic, political, structural and institutional reforms are carried out, aimed at the establishment of democratic society with free market-that is "modern" society. Armenia is first non-communist government, which began its reform after downfall of Soviet regime since 1990. There were not historical precedents, theoretical expertise, or world experience for such transformation. No one can tell and predict the exact rules and ways, which will cost less for achieving reform goals. In fact, the process was often unfolding in a chaotic fashion through ad-hoc solutions and without any well-defined strategies. The first result of transformations is:

- Building an independent, democratic state,
- Forming civil society,
- Creating market economy,
- Integrating into global economy.

Thus, the foundation of a democratic system has been laid, but system itself has not been brought yet to completion. After a drastic economic decline from 1990 to 1993, macroeconomic stabilization programs and stringent monetary and fiscal policies carried out by the Government starting 1994, brought about a reduction of inflation rates, GDP growth, stabilization of national currency's exchange rate,

and decrease in budget deficits. GDP annual average growth rate, 1994 through 1998, was 5.7%. It was worth mentioning and over one third of the growth accounted for foreign loans. The inflation rate was 8.7% in 1998, against 18.5% in 1994 and the budget deficit was 3.2% of GDP in 1998, against 10.5% in 1994. Despite certain macroeconomic stabilization achieved as a result of domestic efforts and foreign assistance, Armenian economy is still in not good shape: industry, financial, payment and investments crises have not been overcome yet. However, financial stabilization was achieved by owing to high taxes and to further curtailment of the populations' already low income. It brought about further isolation of the real sector of the economy, reduction in social infrastructure and shrinking of educational and scientific-research potential. Foreign debt has been increasing rapidly, and up to 20% of national budget revenues are used for servicing debt (debt service payments exceed twice the budget allocations for education and public health care in 1998). During the 1990- 1995, standard of living went down sharply and dramatically, round of 80% of population plummeted into poverty; monthly per capita income fell to 5 USD. The general social post achievements were - free education and health care, the genuine right to paid work, and leisure has become as sweet dreams. Over than 33% of labor force is accounted as unemployment. Human capital has been squandered; previous secured intelligentsia seriously endangered and found itself in the poverty. Real wages in the Armenia have fallen more than 27/1 ratio since 1991. Moreover, the gap between the well to do and everyone else has been growing steadily for more than ten years. If Armenian society is analyzed by dividing it into five groups each representing 20% of the population, the incomes of the wealthiest 20% rose 50 times between 1991 and 1998, the incomes of the bottom 20% actually have decreased 30 times. Actually there is no significant proportion of middle income class, and even by some estimation, it is destroyed. The first wave of emigration began, which reached its peak in 1993 (by unofficial data- one third of population, now it accounts more than 600 thousand people), because of life hardships. It is unfortunately continuing [5].

It is clear that in this situation, government limited financial support to environmental protection to the survival level. Environmental protection expenditures have decreased in last 10 years 4-6 times. It's worth mentioning that even during Soviet period allocated resources for the mentioned purpose already was the least (0,73-1,03 % GDP). Currently it is not surprising that financial allocations would be more reduced (to 0,3% of GDP), as they, currently, are [6].

In spite of globalization, a process, which has destroyed almost every government's ability to maintain a healthy balance between the interests of businesses and the welfare of its citizens, actually, we face problems with decrease of social welfare benefits. So, that taxes can be cut, or the school curriculum made more relevant to the work-place, or the rate of increase in wages is rapidly slowing, the economy will become non competitive in world markets. Especially it is obviously significant for the Transition economies, such as Armenia, with its economic weakness, vulnerability to crisis, external shocks, and internal problems. Essentially, we are being threatened, and anyone looking for a handy way of spotting. When an economy starts running backwards, has only to look for the point at which credible promises of a rosier future get out-numbered by phrases, which start with 'unless' and don't even pretend. That a brighter tomorrow will come about, if we agree to go along with whatever is being

proposed. Thus, Armenia must use the opportunities rendered by globalization for the development of the country to be better integrated in the International economy, but with moderation, with the consideration domestic needs and features, and minimizing negative impact of globalization, but taking into account also activities directed to elimination of such global problems, such as: resource scarcity, influence of climate changes, pollution, loss of nature-biodiversity, which is being lost as human activity disrupts fragile ecosystems. The loss of global biodiversity means lost source of new food and medicine, and lost of productivity and adaptability of ecosystems. Armenia at the beginning its sustainable concepts has already integrated into global process of economic-social –environmental issues, particularly Armenia needs global decisions for the establishment of legacy, which connected to the ratified Conventions, and development of achievements of human rights.

The main task of sustainable development, as mentioned before, is public participation on decision making process, increase to information access and justice. Public participation is new approach for the Armenian, as post Soviet country with closed economy and society. During last years, Armenia has adopted new legislation; particularly "Act on Environmental Impact Assessment", which includes issues on public participation in three levels. Beside, Armenia signed Convention on "Access to information, public participation in decision making, and access to justice in environmental matters", what is in the process of ratification. Surely, these legislative frameworks will have its impact, as "top-down" principles, but it will be great need for the feedback- "down-top" [7].

Armenian Economy has its specific features in the development. Society's genuine development is predicted on the implementation of balanced economic, social, and environmental protection policies, which consider people first of all and target a higher quality of human life as the ultimate goal. Along the development, economic growth and sustainable human development, the use of human and social capital are increasingly grounded, since growth based only on natural and physical capital may lead to an unequal distribution of incomes and neglect the principle of equality between generations.

Free movement of capital and goods worldwide reduces the influence of national governments on economic activities and increases the dependence on large international financial centers and transnational corporations. Having adopted the policy of "open-door" market economy and very liberal regime of foreign trade, Armenia could not help to participate in this process. Armenia's integration in to the worldwide markets is inevitable, because of its very small domestic market. Furthermore, the economy can develop only in conditions of intensive exportation, on the other hand, Armenia's domestic, financial and material resources are too limited to provide sustainable development, and consequently, Armenia must inevitably conduct open-door policy.

In Armenia investment in human and physical capital is not yet at a sufficient level, though it appears to be on the rise. As Armenia characterized with lack of natural resources, it would be relevant implementation of policy to the development recycle production and saving of scarce resources, but the level of recycling is not sufficient and it needs serious investments. In 1998 investments in real assets, including capital and inventory assets, increased over 7 times, compared with 1993 and made up 350.8 mln USD, or 18.7% of GDP. Almost

half of the overall amount of capital investment came from population's pocket (44%), and money allocated from the national budget (19.3%). The share of foreign investment was more than 3 times reduction in loans received through the State [8].

The prevailing priority of economic development since the 1990s has put the major focus on an open economy, free market relations and privatization of state-owned enterprises. This, however, did not prove productive in restoring the standard of living and production capacities in the countries of the former socialist bloc and especially in the CIS countries.

An outflow of capital (including human capital) from the country is underway. Taking into account the negative consequences of this phenomenon, a new, endogenous growth theory has been advanced. It is rooted in the idea of ensuring long-term growth of GDP on the condition that the State takes active participation in promoting this process

Development based on the principle of economic efficiency is the basic approach needed for securing fast economic growth. It would be advisable to lift the tax burden of Armenia's entire economic sphere (of small- and large – scale entrepreneurship), thus broadening its base and increasing state revenues. Of special significance is the strengthening of competitive principles in the economic activities. In that respect it is important in the nearest future to extend the practice of placing State orders on a competitive basis and to neutralize the manifestations of monopoly, which is not a rare occurrence in the domestic market. Functional system for accumulating temporary free assets has not been established in Armenia yet. It is necessary to encourage the development of insurance companies, pension funds and funds for public health care education, etc.

The relationship between socio-economic and environmental situations could be graphically represented as a process of oscillation, which corresponds, to the so-called socio-environmental pendulum [Annex, Fig.1]. If economic development unfolds without regard for environmental priorities, then an environmental crisis breaks out in the country, whereas an unjustified prevalence of environmental priorities over socio-economic ones destroys the economy and leads to poverty. Hence, the system is forced to avoid radical extremes since it is "hit" by priorities neglected in the course of development. Examination of Armenia's development in last ten years reveals that it is loosed in such an oscillating cycle, that is aggravating by comprehensive crisis and that transition to sustainable development has not been accomplished yet. The process can be represented in more detail fashion [Annex, Fig.2], which displace the relationship between the countries quality of life-SHDI (in fact its indicators coincide with the indicators sustainable development) and incomes. Armenia's development since beginning of reform decade can be outlined on the "Sustainability Curve" as a MLNR trajectory. In the initial period the development probably follows the course of sustainability, but at the pre-industrial or under-industrialized production levels (segment MS). Then an socio-economic system is industrialized rapidly and comes to the sustainability curve because of neglecting environmental priorities. The welfare is deteriorated (segment SLN), because of the decline in the environmental situation, despite growing incomes. Because of geopolitical and socio-economic events of the last decade the system has moved quickly on a

course of degradation (segment NR) and ended up at point R characterized by low values of economic-social and environmental index [9].

We assume, that Armenian strategy in Sustainable Development should develop under these main issues: economic efficiency, environmental protection and workplace safety. Economic instruments, which can be used, are:

- tax charge
- tradable permit
- deposit-refund
- subsidy on activity to be encouraged, insurance
- premium reduction

Tax charges are levied either directly on the activity that policy makers find should be reduced (e.g. emissions of wastewater) or on a surrogate product the consumption of which is associated with an activity to be discouraged (e.g. lead content of road fuels). The "polluter pays" principle suggests that emitters of pollutants should pay for the pollution they cause. Tradable permits involve creating a quantitative restriction on an activity (e.g. emissions of sulfur) and allowing firms to trade these restrictions among themselves to ensure that compliance occurs at the least cost to the economy as a whole. Deposit-refund schemes require firms or households to pay a deposit when they purchase certain specific goods (e.g. glass bottles, gas cylinders and batteries). Thereafter, they must return the goods at the end of their useful life to the shop, outlet or other collecting agency in order to recoup the deposit. Subsidies are a common means of encouraging beginning activities and have the effect of reducing the cost of carrying out a socially responsible activity. These may take the form of capital subsidies, low-interest or interest-free loans or exemptions on taxes. An example might be government subsidies on insurance premiums for firms with good health and safety records.

Economic mechanism directed to Sustainable Development did not work efficiently in Armenia currently. This is, certainly, the case with taxes and charges, particularly; the concept "polluters should pay" principle actually exists as good theory. We can mention two main reason of its failure: first, it is great need improve tax legislation and basic regulations, environmental system, including monitoring and control mechanism, second, control system seems be corrupted, it means that "penalties" go another, no legal way. The same situation can be mentioned about natural resource consumption, e.g. forestry, fisheries, herbal plants, etc.

Lack of financial state resources and absence of ecological target funds does not allow practicing theory of subsidizing and financing of development clean technologies and sustainable use of resources, solution current environmental problems (e.g. Lake Sevan).

Conclusion

Armenia, as a country in Transition has faced to create socially oriented market economy. It will allow establish market rules in the socio-economic and environmental spheres under umbrella of sustainable development.

Solution of ecological problems will be based on the sustainable use of natural, physical and human resources reduce of waste and polluting compounds by forcing market tools.

On the other hand, economic growth will be main source for improvement environmental conditions, although integration of economic growth and environmental conditions is very difficult to sustain. Hence countries in transition need to implement experience of industrialized countries by the participation and implementation International Convention principles, such as "Climate change", "Biodiversity", "Environmental Impact Assessment in Trans boarder context" for the keeping balance between mentioned issues.

Solution of ecological problems under concept of Sustainable Development in Transition countries close connected with increasing of public awareness, and public participation in decision making process.

We assume that it will have great impact of implementation already on going "National Environmental Action Plan" prepared by consulting of World Bank.

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Annex

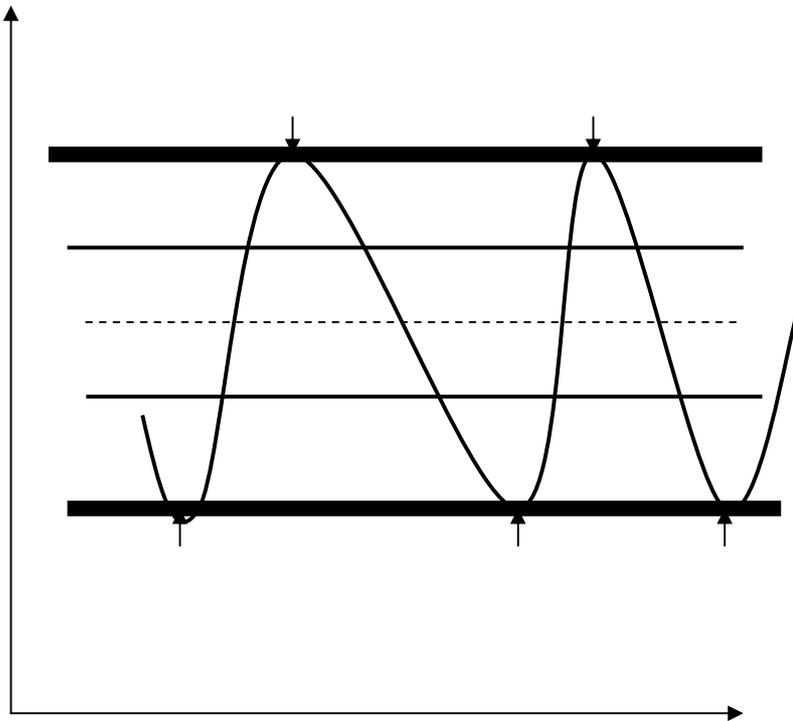


Figure 1.
The Schematic representation of socio-environmental pendulum and the optimal option of Sustainable Development (The "strokes" by neglected priorities are represented by arrows).

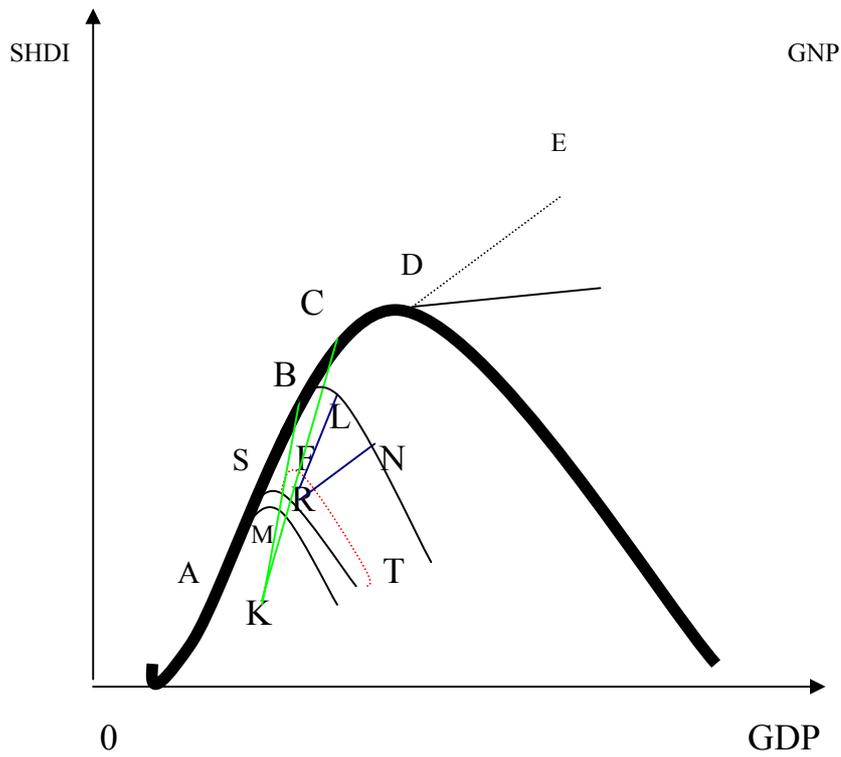


Figure 2. The Armenian development trajectory in context of the global comprehensive system of the development of civilization. The "sustainability curve" reflects the dependency on the quality of life (a set that corresponds to the SHD indicators is assumed).