

NEWSLETTER

ARMENIA

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Burden-sharing for the displaced persons from Nagorno-Karabakh?

More than 100,000 people were forced to flee the region inhabited by ethnic Armenians at the end of September 2023 following an escalation of the Nagorno-Karabakh conflict. They were only able to take what they could transport with them when they fled; other assets have been irretrievably lost. The Armenian government helped with budget-financed emergency aid and included further support packages in the state budget for 2024. The question arises as to whether there should be a burden-sharing scheme established between the Armenian citizens and the refugees from Nagorno-Karabakh and how it should be organised. The experience of burden-sharing arrangements in Germany and Finland after the Second World War could help with the necessary decisions.

Background

The repeated clashes between Azerbaijan and Armenia over the territory of Nagorno-Karabakh, which is predominantly inhabited by an ethnic Armenian population, ended in September 2023. After a one-day war, the internationally unrecognised Republic of Artsakh, commonly referred to as Nagorno-Karabakh, de facto came to an end. The defence forces of Nagorno-Karabakh had laid down their arms and surrendered. When Azerbaijan unexpectedly lifted the blockade of Nagorno-Karabakh, there was a mass exodus of the ethnic Armenian population. Over 100,000 people fled to Armenia. They could only take the things with them they could transport when they fled. The refugees lost their property and houses, agricultural land, material and other assets, as well as their cultural heritage.

Aid measures of the Republic of Armenia

The displaced persons from Nagorno-Karabakh make up around 3.5% of the total population of Armenia. When the wave of refugees arrived in Armenia, those affected were registered and distributed throughout the country. They received emergency aid totalling AMD 38 bn (approx. USD 98 m), spread across 16 aid programmes. 75% of the expenditure was allocated to 3 programmes: Emergency Financial Assistance, Housing and Household Support, and Livelihood Payments. Further substantial support measures with a volume of AMD 48.7 bn (USD 125.5 m) are planned for 2024. These are continued measures from 2023 and new forms of support, in particular pension payments. In total, the planned

measures amount to approx. 1.6% of budget expenditure for 2024.

So far, Armenia has financed all support measures from public funds. However, it is not certain whether these alone will be sufficient to finance current and, above all, future measures. The question therefore arises as to whether, in addition to tax increases or loan financing, a redistribution within society through a special burden to be borne by the wealthier part of the population in favour of the displaced persons could also be considered. There have been successful examples of burden equalisation in the past.

Burden-sharing: redistribution within society

The basic idea behind the sharing of burdens is to regulate the material consequences of war and displacement. It is based on a commitment to solidarity with the victims. Those whose assets and economic existence suffered little or not at all as a result of the war are supposed to compensate for the material burdens of those who lost almost everything. There are two successful cases of burden-sharing from the 20th century: the Federal Republic of Germany and Finland.

Example of the Federal Republic of Germany

The most comprehensive system of burden-sharing was introduced in the Federal Republic of Germany with the Emergency Aid Act of 1949 and, from 1952, with the War Victims' Compensation Act ("Lastenausgleichsgesetz", Equalisation of Burdens Act). For this purpose, Article 120a was added to Germany's Constitution (Basic Law), which regulates the establishment of a special administration for the burden-sharing scheme with far-reaching powers. Out of the total population of around 50 million citizens at that time, around 18 million were displaced persons, war victims and refugees. On the benefits side, there was the so-called main compensation, compensation for lost household goods, integration loans (e.g. for house or flat construction and job creation), war victim pensions, housing loans, hardship compensation and others. Financing was provided by a property levy and two other levies, the mortgage profit levy and the credit profit levy, which were related to the currency reform and the introduction of the Deutsche Mark. The property levy was charged at 50% of the recognised assets. There were, however, various exceptions and exemptions. It had to be paid in quarterly instalments over 30 years. The two profit levies, on the other hand, were intended to siphon off profits through the 10:1 conversion of certain liabilities during the currency reform of 1948. The three levies financed around 37% of the total expenditure of DEM 145 bn. Added to

this were tax revenues, subsidies from the federal states and loans.

The tax offices were used to carry out the evaluation of taxable property and collection of levies on the financing side, while the regional and municipal equalisation offices, headed by the Federal Equalisation Office, were used for the benefit side. At times, up to 25,000 people were employed in around 600 locations.

Experiences from Finland

There were two cases of burden-sharing in Finland: 1940 and 1945. 400,000 people (12% of the Finnish population), who were affected by the occupation of Karelia by the Soviet Union in 1940, were compensated. After the reconquest of Karelia, most of those affected returned to their original settlement areas, only to be forced to leave these areas again following a peace agreement between Finland and the USSR. As most of the displaced people came from the agricultural sector, compensation was often paid in the form of land. State-owned land and forests were made available for this purpose. Private landowners also had to give up certain pieces of land. People with other assets paid a property levy, which was payable in 5 annual instalments. The financial support consisted of emergency aid and a payment in the form of ten-year government bonds. A state fund was also set up, into which private companies had to contribute bonus shares and which issued share certificates to displaced persons.

Key takeaways from burden-sharing schemes

Burden sharing requires certain circumstances to be successful:

- » General acceptance of the population for a solidarity-based redistribution of assets
- » Compensation (only) for financial and property losses
- » Broad social distribution of the payment burden and no excessive burden on those liable to pay
- » Integration of displaced persons as the main objective of the measures (in addition to the compensation)

However, nothing can support a burden-sharing system better than strong economic growth.

Burden-sharing: an example for Armenia?

A particularly important component of burden-sharing is the creation of prospects for the future. The Armenian population and the displaced persons from Nagorno-Karabakh must want to shape the future of Armenia together. The creation of jobs is particularly important for this. Jobs support economic development

and reduce concerns that displaced people could take jobs away from the local population. Housing construction programmes help to reduce the pressure on the housing market. Education is also an important element in creating prospects for the future.

The examples of the Federal Republic of Germany and Finland show that burden-sharing can be successful. If the burdens to be borne by those liable to pay are not too great and solidarity among the population is maintained, it can promote integration and substantially protect public budgets.

Outlook

A burden-sharing system for Armenia must meet Armenian needs. Existing examples cannot be adopted one-to-one. The Finnish system could be helpful for land-for-land compensation issues, especially as Nagorno-Karabakh was also characterised by agriculture. The German system fits well as an orientation on the benefits and administration side. On the financing side, this is not the case to the same extent, as important levies resulted from the special conditions of the German currency reform and are not transferable. The decisive factor for a burden-sharing system in Armenia will be whether it meets the social consensus and offers the displaced persons from Nagorno-Karabakh hope for the future. If this is seen as achievable, the systems described above could serve as successful examples.

Note: This text reflects the author's opinion and does not necessarily represent the views of the German Economic Team.

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