TO DONATE OR NOT TO DONATE II

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Ara K. Manoogian, Martuni, Artsakh, 16 January 2011

White Paper on "Hayastan" All-Armenian Fund PART II

This White Paper consists of three parts and is an analysis of a broad range of issues regarding the activities of "Hayastan" All-Armenian Fund. Its structure follows that of a TV interview given by Sarkis Kotanjian, Executive Director of "Hayastan" All-Armenian fund U.S. Western Region. The interview aired on November 12, 2010, during which he set out to dispel eight key myths about the Fund. The first three myths and Mr. Kotanjian's interpretations have been analyzed in Part I The current part examines the remaining five myths. Part III will provide an overall analysis of the "Hayastan" All-Armenian Fund and possible solutions to the issues it faces today. As in Part I each of the myths are presented exactly as Mr. Kotanjian worded them, along with his interpretations, which are termed here as "Busting." The alternative interpretations of the core issues are presented as "Unbusting."

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MYTH #4:*People say that the administrative expenses of Hayastan All-Armenian Fund are high, I don't know, the half of the raised money, this and that and so on.*

BUSTING: In reality, **the administrative expenses amount to only 7%** or… In general, if we look at how the money is spent percentage-wise, 20% are spent on water supply projects; 10%, on gas supply and road construction; 11%, on social, cultural and other projects; 11%, on healthcare; 41%, on education; and only 7% on the administrative expenses, which includes salaries, **supervision of all these projects, because every day**… we have about 40 construction sites in Armenia and Karabakh. And certain **people must be present at these construction sites to supervise and make sure the construction is done correctly. And all this work has to be supervised, people must be present, and that is included in the 7%.**

UNBUSTING: The data of the U.S. largest evaluator of charities, Charity Navigator , shows that 7 out of 10 charities they've evaluated spend at least 75% of their budget on the programs and services they exist to provide, and 9 out of 10 spend at least 65%. Charity Navigator believes that "those spending less than a third of their budget on program expenses are simply not living up to their missions. Charities demonstrating such gross inefficiency receive zero points for their overall organizational efficiency score."

Spending of only 7% for administrative expenses puts "Hayastan" All-Armenian Fund under a completely different category of fundraising organizations—those that merely serve as fundraising vehicles for other community-based charities. Their median administrative expenses percentage, according to Charity Navigator, is 6.9%. This includes solicitation and collection of donation and excludes supervision of programs.

Insufficient spending on administrative expenses causes inefficient management of both the donations and the programs they were intended for. An example of mismanagement of funds is a delay of program implementation in favor of earning interest on the donations. In 2001, *Haykakan Zhamanak* published a story about the wives of fallen freedom fighters from Kapan, Armenia who voiced their complaints about "Hayastan" All-Armenian Fund. The latter had denied them the monthly allowance of 2000 drams ($4) set up for the underage children of fallen freedom fighters. They had calmly waited for 18 months. When Izmiryan Fund was announced on TV to have transferred $50,000 to the All-Armenian Fund for the project in question, the women waited for two more months. And when they still didn't receive anything, the women contacted the Fund but were denied their monthly allowance. "It was a girl who didn't introduce herself <…> The girl answered that the money is kept in the bank to earn interest, and the allowances will be paid from the interest," said Anahit Hambartsumyan, a freedom fighter's widow who has two underage children.

Only 7% for administrative expenses might also mean that "Hayastan" All-Armenian Fund saved by keeping a small staff. But that is not the impression one gets from the evidence of late philanthropist Vartkes Barsam, founder of fiber optics program in Armenia, former Board Member of AGBU, Armenian Assembly and the American University of Armenia, recepient of Ellis Island Medal of Honor. After helping a philanthropist from South America ship computers to Armenia, he decided to check out the office of "Hayastan" All-Armenian Fund in Yerevan, the final destination of the computers. "I wanted to go and see what these girls are all doing. They're all concentrating on their computers. All playing games! I was wondering what do they do and why they need all these computers," says Vartkes Barsam in a voice file at barsameng.blogspot.com , referring to a period of time when Manushak Perosyan was the Executive Director of the Fund (1992-1998).

If the administrative expenses at 7% do include supervision of construction work, then its poor quality should not be surprising at all. But there's another factor that could have boosted the quality of the construction work. This takes us back to Part I of our report to pick up where it ended—the third factor, which makes Grant Thornton less reliable as an auditing firm for "Hayastan" All-Armenian Fund. In a discussion which unfolded on the Facebook page of the Policy Forum Armenia (PFA) a few days before the 2010 Telethon, Sarkis Kotanjian said: "Grant Thornton not only does financial auditing for Armenia Fund, but also physical audit, meaning it checks the quality of construction, materials used, correspondence to construction codes, etc." Thus, there is supposed to be double quality control—one on the part of "Hayastan" All-Armenian Fund and the other by Grant Thornton.

The heightened supervision, however, hasn't resulted in higher quality in many cases. This means a trifold waste of funds—a portion of "Hayastan" All-Armenian Fund's administrative expenses allocated for supervision of the construction areas; a portion of the fee for the services of Grant Thornton, which includes similar supervision, physical auditing; and poor quality of work, which implies lesser expenditure on the project than reported.

During the fundraising event of "Hayastan" All-Armenian Fund in 1996, it was announced that the cost of one meter of the Goris-Stepanakert road was $250. Four years later I prepared a proposal for the Martuni-Stepanakert road, and it came out to an estimated $94 a meter. Within days I got a call from the Artsakh President's office regarding this project, which had been prepared in collaboration with the architect of the Martuni Region. The President's concern was that the project cost was lower than usual, thus they wanted clarification on how we had calculated our estimate. Once they were satisfied with my answers, they thanked me and wished me good luck in securing funding for the project. In fact, looking for funding hadn't been my intention, but rather to help "Hayastan" All-Armenian Fund create a measuring tool for road construction based on true costs. We'd like to think that it did affect their future calculations to a certain degree, since later the Fund's North-South highway project was estimated at $100 less per meter.

Getting back to Goris-Stepanakert highway, the estimate of $250 per meter publicized by "Hayastan" All-Armenia Fund meant they overpaid the construction company for the work done, presumably, with the condition of getting the difference back under the table. This could explain how Manushak Petrosyan could afford to build a mansion in the heart of Yerevan, close to the Armenian Assembly building.

Web and newspapers are permeated with thousands of reports on very poor quality of the most essential achievements of "Hayastan" All-Armenian Fund—Goris-Stepanakert and North-South highways. I have personally witnessed how bad the quality of both was whenever certain segments would open for traffic from 1997 to 2005. I was once extremely disappointed to see my car jack sink in the asphalt-concrete when I was trying to change a tire of my lightweight car on the Lachin segment. I had also found out that the asphalt was incomparably thinner at the center of the road than at the sides, which was done perhaps to create a visual illusion that enough asphalt-concrete had been used for the road construction.

It was a common practice to use regular mountain rocks instead of specially washed bitumen in asphalting, writes journalist Kristine Khanumyan in *Zhamanak* , February 3, 2010. Construction companies saved also on the amount of bitumen required for asphalting. As a consequence, cracks began appearing on the road within a year; grass was sporadically growing through the asphalt-concrete.

There is more than one reason why the end result is poor. It is essential to understand how the whole mechanism works. The immediate blame for poor quality is on the construction company that was entrusted with the project. The next logical question is why that particular construction company was picked for the project.

In Artsakh, as mentioned in the first part of this article, there are mainly three construction companies that happen to win the tenders—Vrezh, Chanshin and Karavan, which are owned by Karen Hakobyan, Hakob Hakobyan and Roles Aghajanyan, respectively. They win despite poor performance in the past. For the projects implemented in Artsakh, specialists from Artsakh Government are included in the tender committee. As mentioned in Part I these construction

companies have the protection of certain influential Government officials, including Arkady Ghukasyan, then President of Artsakh. The essential rule of free market economy—equal opportunities—functions mainly among Government-backed construction companies. It is not uncommon for a winning construction company to resell parts of their contract to another construction company. This practice was initiated by Chanshin, which resold certain parts of the contract for the Dashbulagh-Khachenaget segment of the highway to Karavan and Vrezh. The latter two, according to Khanumyan, later on borrowed this practice. The consequence was even poorer quality, which eventually became too obvious to turn a blind eye or a deaf ear.

On May 5, 2006, Arkady Ghukasyan finally decided to voice concerns about the quality of work supervised by the Fund. According to *Aravot* , he told journalists in Yerevan that he was unhappy about the quality of the construction work undertaken by "Hayastan" All-Armenian Fund. The former President of Artsakh emphasized that the Fund must exercise tougher control over the construction work. The issue triggered a conflict between the Artsakh Government and "Hayastan" All-Armenian Fund, led by Naira Melkumyan, Executive Director (2004-07) and former Foreign Minister of Artsakh. She laid the blame on the Artsakh officials, since it was the Government representatives who, she claimed, gave the final approval of the construction work following its completion. This confrontation was a hot topic throughout the second half of the year 2006. The problem was discussed at a session of the Board of Trustees, in May 2006. Khanumyan quotes Nayira Melkumyan in "Fund-NKR: Contradictions Deepen" as saying that "by the instruction of Robert Kocharyan, then President of Armenia and President of the Board of the Trustees of "Hayastan" All-Armenian Fund, the cases of the construction companies, which had performed poorly, were submitted to the Prosecutor's Office of Artsakh." The targeted construction companies were Vrezh and Chanshin. To this date no charges have been brought against these companies.

It is strange that Grant Thornton, the auditing firm, which, according to Sarkis Kotanjian, is contractually bound to conduct physical audit and thus has its share of responsibility for the quality of work, but was never mentioned a party of the conflict between the Fund and the Government. Why does the Fund pay Grant Thornton extra to conduct supervision if it's not going to share the responsibility for the poor quality of work? And why does the All-Armenian Fund allocate a part of its 7% administrative expenses on supervision if it's not effective?

MYTH #5: *Most of the money that people donate is used to cover the production cost.*

BUSTING: It is not so. We organize the Telethon thanks to the complete funding of our sponsors. And here I want to thank our sponsors. <…> Our sponsors take care of our organizational expenses, and for that we are thankful to them. Of course, in return, they are advertised, which is natural. **But each dollar that is donated during the Telethon is directed to the projects.** We closed this topic, too.

UNBUSTING: It indeed is an exaggeration to allege that most of the raised money is spent on Telethon production cost. However, it is an equally exaggerated allegation that each donated dollar is directed at the projects in view of the previous statement about the overhead totaling 7%. Moreover, Part I of this White Paper on "Hayastan" All-Armenian Fund shows different ways the donated money has been manipulated for personal profit. This topic is not closed, as the next myth is an extension of this one showing some more ways donated money is managed before reaching the projects.

MYTH #6: *They say that 25-30 officials come from Armenia in order to participate in the Telethon—it is a huge expense, this and that.*

BUSTING: This, too, is false information. This year alone, for example, **5 people are coming, including Bako Sahakyan, President of Nagorno-Karabakh Republic; Archbishop Pargev, Primate of Artsakh; and Ara Vardanyan, Executive Director.** We're talking about only five or six people. And these expenses are also included in the 7%, about which we have already talked, the administrative expenses. Their flight, hotel and so on.

Singers are coming, yes, it is true, in order to participate in a charitable concert on November 21. **And we have made a commitment to cover their flight and 5-day stay at a hotel.** But also, let's not forget that all these singers are going to sing for free. If all of them were to submit their bills— which is common practice—we would be looking at tens of thousands of dollars. But they… it's their present to Hayastan All-Armenian Fund and their homeland. Thus… **And these expenses are also included in the Telethon cost, which is already completely covered by our sponsors.** Thus, it's not a big group. Only 5-6 people, whose expenses are included in the 7% mentioned earlier.

UNBUSTING: At the Hilton Hotel in Glendale, a few days following the 2010 Telethon, I personally handed a person from Bako Sahakyan's team escorting him in the U.S. a letter of concern about the human rights situation in Artsakh addressed to the President of Artsakh. And I saw a few more people from that same team. If the allegation that the cost of only 5-6 people has been covered by the Fund is true, then either the bodyguards of the Artsakh President paid for themselves or the Artsakh budget sponsored their travel and accommodations.

At first Mr. Kotanjian said that the Fund was committed to cover their flight and 5-day stay at a hotel. And at the end, he added that "these expenses are also included in the Telethon cost, which is already completely covered by our sponsors." If that were really so, there was absolutely no need for Mr. Kotanjian to assure the TV audience that the singers' cost was not as high as they might think.

The idea of letting sponsors cover the Telethon cost in exchange for advertising is great. However, it seems to have been implemented only for the 2010 Telethon. *Haykakan Zhamanak* quoted Hambik Sarafian, Chairman of the Social Democratic Hunchakian Party (SDHP) US Western Region and a member of "Hayastan" All-Armenian Fund in California, on September 29, 2009, as criticizing "the administration of the Fund for recklessly spending huge amounts of money on the organization of the Telethon, 'instead of using them for real purposes.'" That same day, Ara Vardanyan, current Executive Director of "Hayastan" All-Armenian Fund, told journalists that by September 2009 about $22,000 had been spent only on ordering an anthem for the Telethon.

MYTH #7:*As if large sums of money are announced, but are never collected during the Telethon.*

BUSTING: This is also a lie. 95% of all funds announced during the Telethon is collected. It is only 5% that we are unable to collect. The reason is very often due to technical issues. That is to say, someone has changed his/her address and moved to somewhere else, but hasn't notified us of the new address. Or his donation has appeared two times in our computer system. We're talking about 5%, whereas 95% of all the announced funds, is collected within a few months.

UNBUSTING: The problem of collecting less donations than pledged is perhaps nearly as old as the Fund itself. Vahan Ter-Ghevondyan, Executive Director of "Hayastan" All-Armenian Fund (1998-2004), however, drew a different picture. He told *Haykakan Zhamanak* in 2002 that

"for instance, 5% of our compatriots living in Los Angeles, as a rule, break their pledges and refuse to pay their "national tribute" when collecting the funds. Moreover, when the organizers of the Telethon tried to verify the authenticity of certain calls 5 minutes after the announcement of sizable donations, it turned out that they had been simply fooled—when introducing themselves during the live TV broadcast, the callers had provided wrong addresses and phone numbers."

In May 2004 Naira Melkumyan complained to journalists about the Fund's failure to utilize the full potential of Los Angeles, CA. According to her, $910 thousand was transferred in 2003 instead of the pledged $1.3 million. "This problem exists: a pledge is given and then is broken. We must be demanding when it comes to our pledges and possibilities," Naira Melkumyan was quoted by *Haykakan Zhamanak* as saying, "Hayastan" All-Armenian Fund announced in 2005 to have raised $7.7 million, whereas, half a year later, according to *Haykakan Zhamanak* , had to admit to having barely collected $5 million (about 35% of all the pledged funds vs. 5% mentioned by Mr. Kotanjian).

The situation didn't change much four years later. In an interview to *Hetq* , in 2008, Vahe Aghabekyants, Executive Director of "Hayastan" All-Armenian Fund (2007-08) said that the inability to collect the donation is often due to the donors' financial situation. Aghabekyants brought the example of a donor whose company's shares valued $900 million at the time of the pledge, but when they dropped to $150 million he was unable to donate the promised half a million dollars.

However, there's another mechanism widely used by "Hayastan" All-Armenian Fund to show large numbers. "Hayastan" All-Armenian Fund in 1996 contacted the Monte Melkonian Fund in Los Angeles and asked to make a donation that had already been intended to be sent to the Monte Melkonian Fund in Armenia, assuring that the same amount would be handed back in Yerevan. This was to be done as a show to the world of how much support was being sent to Armenia and Artsakh from the Diaspora. As the President of Monte Melkonian Fund at the time, I made an appearance on the Telethon in 1996, presented a check for $3,000 and talked about our support to the homeland and "Hayastan" All-Armenian Fund, encouraging people to donate. Later, I learned that Kirk Krikorian's Lincy Foundation that was matching donations given to "Hayastan" All-Armenian Fund during the Telethon, had matched our "donation" with an additional $3,000, which was added to the All-Armenian Fund's account. I could only wonder how many others had been asked to do the same as we had.

Over ten years later, in 2007, I had a discussion with Armo Tsaturyan, Minister of Territorial Administration of Artsakh, about the "Hayastan" All-Armenian Fund Telethon. We particularly touched on the misrepresentation of donations. He knew of $1 million from Vahe Garabedian—who had his own fund—being misrepresented as a donation to the "Hayastan" All-Armenian Fund. However, he didn't know that as much as about $4.5 million fell under this category, including donations from such major contributors as Kirk Kirkorian and Gerard Cafesjian. Mr. Tsaturyan said that he and others in the Artsakh Government weren't expecting the Diaspora to donate anything due to the scandals about the quality of work and the ensuing fallout between Artsakh authorities and "Hayastan" All-Armenian Fund in 2006. In

this context, they were all astonished to hear "Hayastan" All-Armenian Fund announcing the record-breaking amount of $13.7 million. A day after I wrote down the details of our meeting in my blog, Martuni or Bust! , Armo Tsaturyan called me up sounding quite upset. It turned out that he had received a call of complaint from the Fund. However, the word was out already (for details of our conversation following the Fund's call, click here). It is still unknown how much of the remaining $9.2 million was, in fact, intended for the All-Armenian Fund's projects.

MYTH #8:*As if Armenians from Armenia do not participate in the telethon. By saying Armenian from Armenia, I mean our compatriots who have come to Los Angeles or the U.S. from Armenia.*

BUSTING: It is not so. First of all, I'd like to say that Armenians from Armenia do the greatest charity. Why? **Because, let's not forget that all of us, most of us help our families in Armenia. Every month, be it $50, $100 or… unrelated to "Hayastan" All-Armenian Fund. And I encourage them to provide even greater support because these people have needs in Armenia.** But there are many people who, besides that, also contribute to "Hayastan" All-Armenian Fund because it administers large-scale projects, such as water supply. **And Armenians from Armenia amount to 40% of all our benefactors. It's quite a large percentage.**

Thus, let us not try and create problems that do not exist in reality. Let us not smear this dignified mission. Let each of us rather support as much as we can, let us not be indifferent.

UNBUSTING: Mr. Kotanjian's call on the Armenians from Armenia to not only continue but also increase the support of their families in Armenia and, in general, the negative outcome of continuing aid will be discussed in Part III, the final sequel.

As for the alleged 40% of donors, I'd like to share my personal experience of how that is reached. A share of these contributions (originating from Armenia and Artsakh) are donations forced by the administrations of state institutions and public schools. When I lived in Artsakh, I knew a woman who worked at the Artsakh President's office. She had openly refused to allow a deduction from her pay that was supposed to be contributed to "Hayastan" All-Armenian Fund as a voluntary donation in 2003. Oleg Yesayan, then Speaker of the Artsakh National Assembly and now Armenia's Ambassador to Russia, who was in charge of collecting the mandatory donations, ordered a person, who was collecting signatures of consent for deductions from the woman's salary, to sign it on her behalf.

On another occasion, in November of 2004, I was approached with a request to donate AMD 500 to the Fund. I was then a member of the collective of skilled workers for the stone factory I had in Martuni, Artsakh. I refused and was left alone. However, another member of the same collective, a barber, was treated differently. He and dozens of other people weren't even asked whether they wanted to donate or not—AMD 250 was automatically deducted from their monthly pay. According to Government officials in Artsakh, the Fund has been using the mandatory donations collected from Artsakh citizens to show the better-off Diaspora Armenians that the natives trust the Fund, thus encouraging them to also donate.

The method of mandatory donation has been widely exercised in the Republic of Armenia,as well. On November 19, 2003, a mother called *Aravot* to sound an alarm about the public school #132 in Yerevan, which forced its students to contribute AMD 3,000 to "Hayastan" All-Armenian Fund. The newspaper found out that neither the Department of Education of the Mayor's Office, nor the Ministry of Education and Science had given any such orders to public schools. The journalist only managed to speak to the vice-principal, who said that it was just a suggested donation of AMD 10-20. "In a word, we received the same response from a school administration as every other time, after alarms about fundraisers," concludes the newspaper.

Tigran Paskevichyan, former head of the Public Relations Department of "Hayastan" All-Armenian Fund, expressed his concern regarding a donation that came from an orphanage in Vanadzor in December 2004. In his article "All-Armenian Fund Or Rich Man's Club," which left Naira Melkumyan, then newly appointed Executive Director of the Fund, bitter, Mr. Paskevichyan wrote: "Everyone in the world knows that orphanages themselves function thanks to donations. But an orphanage in Armenia becomes a donor. <…> The children in the orphanage, of course, don't have money; this means that the administration has cut certain expenses in order to make a contribution. And that is absurd."

After the 2007 Telethon, "Hayastan" All-Armenian Fund announced that $15 million-worth pledges were received. On December 19, 2007, *Haykakan Zhamanak* wrote that for several weeks they kept receiving calls from certain state institutions, complaining that "2% is deducted from the salaries of the workers from those state institutions with an excuse that it was for the Telethon of "Hayastan" Fund." The newspaper staff found out that over 10% had been deducted from the salaries of Public TV employees for the needs of the Fund.

These are problems that do exist in reality, and they will continue "smearing this dignified mission," as long as "Hayastan" All-Armenian Fund ignores their existence. Having lost its most valuable resource—trust, the Fund has been forced to look for shady ways to prolong its existence. It is important to regard the open discussion of these issues as a refusal to be indifferent and an expression of support for the Fund.

To be continued…

To Donate Or Not To Donate Part I

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