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Programming of the European Neighbourhood Instrument (ENI) - 2017-2020

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Single Support Framework for EU support to Armenia

Single Support Framework for Armenia 2017-2020

Introduction

The Republic of Armenia (further referred to as Armenia) is a lower middle-income country with a projected GDP per capita of USD 3,511¹ in 2016 with a resident population of 2.9² million people. There is also a large historical Armenian diaspora all over the world.

Armenia's **economic** performance has slowed down from a growth rate of 7% GDP in 2012 to nearly 0% in 2016. This was largely due to the economic crisis in Russia as well as structural challenges within Armenia. The consequences of the conflict over Nagorno-Karabakh also weigh heavily on the economic development.

Armenia's unemployment rate is estimated to have reached 18.8% in 2016³. Unemployment and lack of economic opportunities have contributed to significant emigration. Remittances from migrant workers play an important role for Armenia's economy, constituting 16.1% of GDP in 2015 and 14.3 % in 2016⁴.

The geography of poverty in Armenia shows substantial gaps between the capital city of Yerevan (25.6%) and other urban areas (39.4%). Today the key social challenges that Armenia faces are – unemployment (18.8% in 2016); poverty (29.8% in 2015⁵); and emigration (1% annually in the last five years).

Despite the country's commitments to ensuring the rule of law and positive recent achievements, challenges remain in the area of good governance, rule of law and democracy and further efforts are needed for the application of international commitments related to respect to human rights and the independence of the judiciary. Armenia ranked 106 out of 140 countries in judicial independence in the Global Competitiveness Report 2016. Armenia has shown modest progress in the Worldwide Governance Indicators, notably in regulatory quality and control of corruption, but there has been regression between 2013 and 2015 on Government Effectiveness, while the country remains 'partly free' according to Freedom House 2016 ratings, given the many media freedom challenges.

In 2015, Armenia voted for a constitutional reform in a referendum. The new Constitution will modify the current semi-presidential model of government into a parliamentary one. In December 2015, the EU and Armenia opened negotiations on a new agreement to replace the 1999 EU-Armenia Partnership and Cooperation Agreement. In March 2017, Armenia and EU initialled the new Comprehensive and Enhanced Partnership Agreement (CEPA).

Following electoral reforms, which were agreed in 2016 by Government of Armenia, the opposition and civil society, the parliamentary elections held in April 2017 were well-administered and fundamental freedoms were generally respected; however, as noted by the election observation mission, important shortcomings remained (including vote-buying and misuse of administrative resources), which contributed to an overall lack of public confidence and trust. Further commitment to implementing electoral reform is needed to address this.

¹<http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017>

² 2016 – Statistical Yearbook of Armenia, NSS.

³ <http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017>

⁴ <https://www.cba.am/en/sitepages/statexternalsector.aspx>

⁵ National Statistical Service.

1. EU Response

1.1. Strategic objectives of the EU's relationship with the partner country

The stabilisation and resilience of neighbouring countries are the EU's main political priorities outlined in the **European Neighbourhood Policy (ENP)** review⁶ of November 2015 and in the **Global Strategy for the European Union's Foreign and Security Policy** of 29 June 2016. The framework for EU-Armenia relations is embodied in the above-mentioned CEPA.

The priorities and indicative allocations for financial assistance to be included in the Single Support Framework for 2017-2020 (SSF) are directly linked to the policy objectives outlined in the EU-Armenia Partnership Priorities, the priorities identified during the Riga Summit, the "20 Deliverables for 2020"⁷, as well as to the **Joint Programming**⁸ which is also building on the Republic of Armenia's Government Programme 2016.

EU's cooperation with Armenia aims at supporting the country's resilience, security and prosperity built on democracy, human rights, rule of law and sustainable economic growth and its connection with the EU and the region through enhanced connectivity and mobility and people-to-people contacts.

1.2. Choice of sectors of intervention

The sectors of intervention in the SSF 2014-17 were private sector development, public administration reform and justice reform. The first of these objectives was well served by the projects that developed the equity financing and improved the organisation of agriculture, but a need for further support to economic development remains. Similarly, the public administrative reform registered an important success in the electoral reform and has helped establish a strategy for further work, which will be addressed under the priority 'strengthening institutions, where also the findings of the recent peer review of the Armenian judiciary may be addressed to build on the achievements of the previous period.

The priority sectors reflect the revised **ENP** and the **Partnership Priorities**, and are coherent with the **Eastern Partnership priorities set in Riga** and with the "Eastern Partnership Deliverables".

The SSF identifies key actions within these priority areas and is moreover in line with the key global policy goals set by the **UN 2030 Sustainable Development Goals** and the **Paris Agreement on Climate Change**. Gender equality, care for vulnerable populations, civil society participation and environment and climate issues are mainstreamed across the sectors.

Consultations have taken place with the Government, Civil Society Organisations, multilateral and bilateral donors including EU Member States, International Financial Institutions and

⁶ The ENP review highlighted the stabilisation of neighbouring countries as an important political priority, to be achieved through support to good governance, democracy, human rights and rule of law, economic governance, as well as cooperation on security and on migration and mobility.

⁷ European Commission/HRVP – Joint Staff Working Document of 9 June 2016 " Eastern Partnership - 20 Deliverables for 2020 Focusing on key priorities and tangible results" – SWD(2017) 300 final

⁸ The EU Joint Analysis was concluded in October 2016 by the EU Member States present in Armenia endorsing the Joint Analysis report including review of 23 sectors.

International Organisations. The choice of priority sectors has also been guided by the **EU Joint Analysis**⁹, presented to the Government in October 2016.

The indicative budget allocations reflect the **focus on delivering tangible and visible results for citizens**. In order to maximize the impact of EU assistance both in terms of promoting sustainable change and reforms and ensuring visible improvements in the daily life of citizens, a cluster of interventions could be focused on specific regions of Armenia, whilst recognising sustainable development and reform needs across the whole territory. Specific efforts will be made to foster communication on EU policies and support..

To enhance the impact and visibility of EU support, the EU will identify, together with the Government of Armenia, one or two pilot regions. In each pilot region, the EU will aim to concentrate support from a number of cross-sectoral initiatives to maximise impact. This will also allow new initiatives to be piloted in the selected regions, where appropriate.

The approach of pilot regions does not mean that EU assistance will be limited to these regions. It will permit concentration of EU support, where appropriate. The aim is to ensure that EU support is as close to citizens as possible.

The sectors selected for support are:

**Sector 1: Economic development and market opportunities
(indicatively 35% of total budget)**

Given the economic growth constraints facing Armenia, including the economic crisis in Russia and its effects on the country, further improvements in the business environment, including fair competition between economic actors, easier access to finance with appropriate financial infrastructure, and development of human capital are necessary to ensure sustainable and inclusive economic growth.

Continued improvement of the business environment with sound economic governance, level playing field and non-discriminatory support to industries with high sustainable economic growth potential and value-added is the key to economic development. Moreover, the transition to a more green and circular economy could not only boost competitiveness, but also provide new jobs. Finally, better cross-border interconnections are important for fostering exports.

**Sector 2: Strengthening institutions and good governance
(indicatively 15% of total budget)**

The necessary structural reforms require political stability and governance capacities. There are several important general constraints to the country's sustainable growth linked to flaws in governance, including: in the functioning of judicial system; respect of human rights; the corruption situation; and the inefficient public administration, including at local government level. Additionally, civil society and media should be further supported to build their capacities, in their efforts to strengthen rule of law and fight effectively against corruption.

⁹ The EU Joint analysis was concluded in October 2016 by the EU Member States present in Armenia endorsing the Joint Analysis report including review of 23 sectors.

**Sector 3: Connectivity, energy efficiency, environment and climate change
(indicatively 15% of total budget)**

Reforming the *energy sector* in Armenia has the potential to bolster Armenia's resilience and economic development as well as protect the environment and reduce dependence on external energy sources¹⁰. Improved energy efficiency and increased use of renewable energy sources would allow Armenia to save up to 4% GDP. The Metsamor nuclear power plant contributes to around one third of total electricity generation in Armenia, however it cannot be upgraded to meet internationally recognised nuclear safety standards and its closure and safe decommissioning remains a key objective for the EU.

In the area of transport, investment projects on the TEN-T core network will be prioritised. Armenia has committed to cooperate in an EU-launched study to determine the most optimal investment scenario to improve the core road links between Armenia and Georgia. Road safety also needs improvement, with nearly 600 people killed in accidents every year. Furthermore, to ensure effective connections and market development, in March 2017 the negotiations between Armenia and the EU on a Comprehensive Air Transport Agreement have been launched; this is also a potential target for support.

Armenia is still in transition towards a full and competitive market economy and facing environmental challenges that require immediate attention. There is also a need to better integrate environment into all other policy areas and strengthen environmental governance and achieve better public access to environmental information in the policy making process. Improvements in this field can have a positive spill-over effect on numerous sectors of economy, especially agriculture and tourism.

**Sector 4: Mobility and people-to-people contacts
(indicatively 15% of total budget)**

The EU-Armenia Visa Facilitation and Readmission agreements, in force since 2014, and the Mobility Partnership with the EU are overall effectively implemented. The parties shall continue to promote mobility of citizens through visa facilitation and consider in due course the opening of a visa dialogue, provided that conditions for well-managed and secure mobility are in place.

Development of stronger ties between the labour market and the education system and between the private sector and research should be further enhanced in Armenia to support smart and sustainable economic development. Armenia is a committed member of the Bologna process and is actively engaged in the Erasmus+ programme, but further attention must be paid to the quality of education.

Armenia is also associated to Horizon 2020, the EU's research and innovation funding programme, with access for Armenia's research institutes, universities and individual researches to funding, particularly through the SME Instrument.

¹⁰ In 2012 energy imports amounted to 90% of the total of 3.377 Mtoe primary energy supplied. Source: EU Joint Analysis Report, December 2016

The **regional and multi-country programmes** will continue to provide key complementary support to implement results for citizens in the context of the key areas of cooperation agreed in Riga and the regional multiannual indicative plan.

2. Financial overview

The indicative allocation for 2014-2020 is EUR 252,000,000 to EUR 308,000,000.

For the programming period 2017 - 2020 it is EUR 144,000,000 to EUR 176,000,000.

The indicative breakdown by sector is the following:

	<i>Indicative amounts</i>	<i>Indicative % of total bilateral allocations</i>
1. Economic development and market opportunities	<i>EUR 50,400,000 – 61,600,000</i>	35 %
2. Strengthening institutions and good governance	<i>EUR 21,600,000 – 26,400,000</i>	15 %
3. Connectivity, energy efficiency, environment and climate change	<i>EUR 21,600,000 – 26,400,000</i>	15%
4. Mobility and people-to-people contacts	<i>EUR 21,600,000 – 26,400,000</i>	15 %
Complementary support for capacity development/institution building and strategic communication	<i>EUR 21,600,000 – 26,400,000</i>	15 %
Complementary support for civil society development	<i>EUR 7,200,000 – 8,800,000</i>	5 %

Armenia may also benefit from allocations under the umbrella programmes. Such allocations will be granted on the basis of progress towards deep and sustainable democracy and agreed reform objectives contributing to the attainment of that goal.

Armenia is also eligible for support under a number of other EU instruments, such as the Instrument contributing to Stability and Peace, Humanitarian Aid, the Partnership Instrument, the European Instrument for Democracy and Human Rights, the Instrument for Nuclear Safety Cooperation, Macro-Financial Assistance, Development Co-operation Instrument thematic

programmes and external actions under EU internal programmes for research and innovation, energy, transport, education and youth, and culture.

3. EU support per sector

3.1 Economic development and market opportunities (35%)

3.1.1 The following overall and specific **objectives** will be pursued:

The **overall objective** is enhancing economic resilience and promoting inclusive and sustainable growth.

Specific objectives include:

- further enhance Armenia's business environment and investment climate;
- support Small and Medium Sized Enterprises (SMEs) with special emphasis on sectors with high value-added, high growth potential in the regions and in agriculture, while ensuring a level playing field;
- enhance human capital, including through better links between the education system and the labour market;
- enhance Armenia's trade links in order to integrate the Armenian producers into the international value chains;
- support structural reforms and economic governance in close cooperation with the IMF and World Bank;
- support the development of green and circular economy;
- support the development of innovative digital economy and the harmonization with the EU's Digital Single Market.

3.1.2. The **main expected results** include:

- improved business environment, including fair competition between economic actors; improved financial infrastructure;
- enhanced access to finance and business advisory services; more balanced and inclusive development of the economy in the regions; increased diversification of the agro-food sector; increased farmer income in selected regions through improved competitiveness and diversification of production;
- improved skills and competences of work force; improved mechanisms to match labour supply with demand;
- increased integration of the Armenian economy into regional and international markets, by securing and facilitating trade through simplified trade procedures and enhanced border agency cooperation;
- strengthened macro-financial stability, public finance management, and budget transparency;
- improved regulatory framework and enabling environment for transition to a greener and more circular economy;
- enhanced harmonisation of Armenia's digital market with the EU's Digital Single Market.

3.1.3. The main indicators are:

- established and functioning public-private dialogue platform;
- improved score in international rankings for business environment;
- financial services meeting business needs;
- affordability of financial services;
- number of alternative sources of financing for SMEs;
- number of SMEs benefitting from EU assistance;
- number of client-oriented business support organisations providing to their SME development services in relations to the global market requirements;
- number of agricultural SMEs benefitting from finance; number of banks offering agricultural credit;
- reduction of the dominance of exports of the main exported products of agro-food products; increase in the average monthly income of rural households in selected areas;
- ease of finding skilled employees; rate of employment;
- percentage of trade with neighbouring countries;
- GDP growth;
- number of actions implemented towards circular economies;
- independence of the telecom regulator; level of harmonisation on eCommerce, eCustoms and eLogistics;
- well-structured, mapped and interconnected ICT innovation and start-up eco-systems.

3.1.4. **Donor coordination and policy dialogue**

While donor coordination in this sector requires further improvement, the efforts of Armenia cooperation partners have been well coordinated by the Deputy Prime Minister through the development partners' forum organized on a quarterly basis, and different thematic donor groups (economic development and regional development). The EU Joint analysis conducted in 2016 under Joint Programming offers a good basis to further support coordination and complementary of stakeholders building on shared recommendations. In particular, at the technical level, donors have agreed on a "joint analysis" in the sector of regional development.

In addition to the EU and its Member States, WB, ADB, USAID, UN are involved in direct support to SMEs and industrial sector development with special emphasis on agriculture, and continue investing in education (especially higher education).

3.1.5. Armenia's **financial and policy commitments**

The Government Program adopted in October 2016 contains commitments in support to further improvements in the business environment, promotion of restructuring and development in agriculture sector and broader support to the SME development in Armenia; investment in education at all levels; labour force mobility and linkages with Armenians abroad, as well as Armenia's integration to regional and international markets. These themes also feature as priorities in Armenia's National Development Strategy.

Specific relevant sectorial strategies include the Annual Programmes on the Improvement of Business Environment; the Annual State Programmes for SME State Support; Export-Led Industrial Policy; Investment Policy Concept; Strategy of Reform of the Quality Infrastructure; IT Sector Development Concept Note; the E-Governance Strategy Plan from 2014; the Concept

Note on the Digitalization of the Activities of Local Self-Government Bodies in Armenia and the Development of Information Society, also from 2014; Education Development State Programme (in process of finalizing); the Concept Paper on the Initial Strategy for Formation of the Innovation Economy (2011); the Strategy on the Development of Science in Armenia for 2011-2020; Priorities for Development of Science and Technologies for 2015-2019; Employment Strategy for 2013-2018 and the Armenian Regional Development Strategy adopted in 2016.

Government's fiscal commitment to support reforms under this priority is reflected in the Medium Term Expenditure Framework (MTEF); 2018-2020 / 2019-2021 / 2020-2022 MTEFs will be of particular relevance. Special attention is to be paid to establishing a unified system for the Government and Development Partners / IFIs on identification, selection, prioritization, and financing of the infrastructure projects.

3.1.6. When needed, the appropriate type of **environmental assessment** (SEA or EIA) will be carried out according to EU standards. These environmental assessments will be used with a view to ensure approach to implementing EU financing actions in environmentally sustainable and resource efficient way while contributing to sustainable development.

3.1.7. The overall **risk assessment** of the sector intervention is:

The main risk to achieving progress vis-à-vis the above-defined objectives is the lack of government commitment to the promotion and coordination of the relevant policy measures especially concerning business environment and fair play. In addition, the limited interest and capacity for involvement of the key stakeholders, such as enterprises, their associations, youth, academia and civil society at large poses a further risk that needs to be controlled in the context of the EU involvement in this priority sector. Moreover, any further regional tensions and conflicts could undermine socio-economic stability in Armenia and therefore also pose a threat to the achievement of the objectives within this priority sector.

The above-mentioned risks need to be carefully monitored. Risk mitigation can include:

- Close cooperation and ongoing policy dialogue with the Government especially on joint priorities to be agreed within the new legal framework between the EU and Armenia, including monitoring of the Government's fiscal commitment;
- Enhanced cooperation among Armenia's Development Partners, EU Member States and the EU Delegation to Armenia including through continuous commitment to the Joint Analysis process, regular exchange of information and coordination;
- Engagement not only with the government but also with the main target groups – entrepreneurs and their associations, youth groups and academia, civil society organizations. Capacity building support and knowledge transfer to them;
- Effective use of various aid modalities, such as budget support, twinning, technical assistance, and grants.

3.2 Strengthening institutions and good governance, the rule of law and security (15%)

3.2.1 The following overall and specific **objectives** will be pursued:

The **overall objective** is the improvement of good governance through public administration¹¹ reforms at central and local levels including evidence-based decision-making, human rights promotion, independent, efficient and predictable judiciary, and fight against corruption.

Specific objectives include:

- support reforms and capacity development in public administration in line with the Principles of Public Administration;
- support implementation of efficient and democratic structure of administrative-territorial organization;
- support further strengthening of efficiency and predictability of the judiciary;
- improve democratic governance, including on elections, and fight against corruption;
- increase capacity in fighting organised crime, including money laundering and cybercrime;
- support statistical services to produce high quality official statistics.

3.2.2. For each of the specific objectives the main expected **results** are:

- the Principles of Public Administration are implemented in selected areas; services meet the needs of the citizens and are provided in an efficient way including through further advancement of e-solutions;
- functional and sustainable local government units established through the measures of further consolidation and decentralization; performance and capacity of local government units strengthened;
- the independence of the judiciary is strengthened; the judicial system becomes more efficient and predictable;
- functional system of fight against corruption including a system for asset-declaration and for preventing conflict of interest is in place; enhanced protection of human rights;
- increased capacity to fight organised crime including with effective asset recovery and financial investigation tools; money laundering legislation is effectively implemented, enhanced capacity to fight cybercrime;
- the availability and quality of official statistics is improved and supports improved policy making and governance; improved and increased usage of official statistics for evidence-based decision-making;
- enhance transparency of civil society support in Armenia and emphasize accountability towards beneficiaries.

3.2.3. The main **indicators** are:

- extent of compliance with the Principle of Public Administration;
- citizens satisfaction with service delivery;
- number of municipalities; judicial independence;
- backlog of civil and criminal cases;
- independent anti-corruption institution fully operational;
- number of asset declarations introduced and verified;

¹¹ In line with the OECD/SIGMA Principles of Public Administration.

- number of corruption cases reported; Global Gender Gap Index;
- number of human rights cases brought to Court and examined within regulated timeframe;
- track record of convictions for organized crime, trafficking and smuggling offences;
- level of international police cooperation for fighting against cybercrime.

3.2.4. **Donor coordination and policy dialogue**

While donor coordination in this sector requires further improvement, the efforts of Development Partners have been well coordinated by the Deputy Prime Minister through the development partners' forum organized on a quarterly basis, and its development assistance coordination group on democratic governance. The EU Joint analysis conducted in 2016 under Joint Programming offers a good basis to further support coordination and complementary of stakeholders building on a shared recommendations. In particular, at the technical level, donors have agreed on a "joint analysis" in the sector of public finance management, public administration reform and gender.

Reforms in public administration and service delivery, public financial management, administrative-territorial administration, judiciary as well as anti-corruption efforts are the key areas of the EU involvement in Armenia. Also other major Development Partners present in Armenia continue to support this sector.

Policy Dialogue is also taking place in the framework of the PCA sub-committee and within the steering committee meetings of sectoral budget support programmes.

3.2.5 Armenia's **financial and policy commitments**

Specific objectives proposed under this priority are in line with the Government of Armenia policy including the Government Program adopted in October 2016. Reforms in public administration, including service delivery, based on trusted statistics, and electronic governance, public financial management, justice sector development and anti-corruption are included in the Armenia Development Strategy as priorities. With the adoption of the new Constitution in 2015, Armenia has entered into a new phase of reforms. This reform will lead to significant changes in public administration system with increasing role for the Parliament / Government vis-à-vis that of the President. There is no strategy for institutional reforms in public administration, but there is Civil Service Strategy, E-Governance Strategy, PFM System Reform Strategy 2016-2020, Anti-Corruption Strategy 2015-2018, Open Government Action Plan 2016-2018, Strategic Programme on Legal and Judicial Reforms in Armenia for 2012-2016, the Statistical Law of the National Statistical Service of the Republic of Armenia of 2001 and the Programme for State Statistical Work for the period 2016-2018. The Concept on Enlargement of Municipalities and Intercommunity Cooperation adopted by the Government in November 2011 foresees gradual enlargement of municipalities through consolidation.

Government's fiscal commitment to support reforms under this priority will have to be regularly monitored and assessed within the MTEF, and 2018-2020 / 2019-2021 / 2020-2022 MTEFs will be of particular relevance.

3.2.6. When needed, the appropriate type of **environmental assessment** (SEA or EIA) will be carried according to EU standards out as part of annual programming of financing actions under this priority sector.

3.2.7. The overall **risk assessment** of the sector intervention is:

The main risks to achieving a successful sector intervention are related to ensuring a consistent government commitment to reforms in public administration, but especially in the judicial sector, fighting corruption and promoting human rights as well as the lack of resources for modernising the statistical service and the statistical system of Armenia. Political will to ensure transparent, open and truly inclusive decision-making represents another risk area. Overall, any further regional tensions and conflict could undermine socio-economic stability in Armenia and therefore also pose a risk on achievement of objectives within this priority sector.

Risk mitigation can include policy dialogue with the Government, including monitoring of the Government's fiscal commitment, and close coordination among the Development Partners and other stakeholders. Particular risk mitigating factor could be enhanced support to cross-cutting measures (civil society capacity development; promotion of gender equality; addressing corruption risks; engaging with youth; involving Diaspora; and ensuring strategic communication of the EU role and support).

3.3 Connectivity, energy efficiency, environment and climate change (15%)

3.3.1 The following overall and specific **objectives** will be pursued:

The **overall objective** is to support development of the transport, energy and environment sectors through the enhancement of sectoral governance and policies, regional connectivity, energy efficiency, use of renewable energy, and environment and climate action policy.

Specific objectives include:

- improve sectoral governance in transport and energy (including nuclear safety);
- improve energy efficiency and usage of renewable energy sources;
- prioritise infrastructure investment in line with the extended core TEN-T;
- develop the potential of the aviation sector (Open Skies Policy);
- enhance environmental protection and resilience.

3.3.2. For each of the specific objectives the main expected **results** are:

- institutional structure informing the Government investment planning fully operational; improved road safety; improved energy sector governance; implementation of the Stress Tests nuclear safety upgrades, early adoption of a roadmap for the closure and safe decommissioning of Medsamor nuclear power plant;
- enhanced energy efficiency; increased share of energy from renewable sources in the energy mix;
- improved infrastructure taking into account the extended core TEN-T;
- improved accessibility of Armenia;
- enhanced environmental governance; enhanced support to green growth; improved waste management; improved water and wastewater management.

3.3.3. The main **indicators** are:

- number of fatalities due to road accidents reduced;
- energy data management system established and functioning at the central and local levels;

- standards and instruments for measuring energy efficiency projects of buildings are in place and applied;
- share of renewable energy sources in total power generation;
- increased number of passengers flying to and from Armenia;
- improved on-line access to data and state of the environment analysis;
- percentage of cost savings realised by enterprises due to cleaner production;
- number of inhabitants covered by waste/separate waste collection;
- number of inhabitants connected to main potable water and wastewater systems.

3.3.4. **Donor coordination and policy dialogue**

While donor coordination in this sector requires further improvement, the efforts of Armenia cooperation partners have been well coordinated through the transport and energy thematic donor groups gathering International Financial Institutions present in Armenia and the EU Delegation, which is also providing targeted technical assistance including on prioritization of the investment pipeline. Other opportunities of cooperation with IFIs could be explored by means of increased coordination making use of blending, e.g. in the areas of SME support, transport and energy / energy efficiency.

3.3.5. Armenia's **financial and policy commitments**

Specific objectives proposed under this priority are in line with the Government policy, including the Government Program adopted in October 2016. It emphasizes energy independence and advancing of renewable energy as well as promotion of energy efficiency measures and energy inter-connectivity with other countries of the region.

Government's fiscal commitment to support reforms under this priority is reflected in the MTEF; the 2018-2020 / 2019-2021 / 2020-2022 MTEFs will be of particular relevance.

3.3.6. When needed, the appropriate type of **environmental assessment** (SEA or EIA) will be carried out according to EU standards as part of annual programming of financing actions under this priority sector.

3.3.7. The overall **risk assessment** of the sector intervention is:

In this investment intensive sector, the main risks are linked to governance, in particular the strategy and prioritization of investments. As the borrowing capacity of the Government of Armenia is limited (reduced fiscal space), it is of high importance to focus on investments that generate sustainable growth and that leverage private sector involvement through transparent and competitive Public Private Partnerships. The effort to ensure optimal regional integration both for transport (TEN-T) and energy corridors is also critical to optimize investments. In Energy, a major risk or missed opportunity would be to underinvest in energy efficiency and renewables, whereas in transport a key risk could be to build infrastructures that do not integrate well into the agreed indicative TEN-T network.

3.4 Mobility and people-to-people contacts (15%)

3.4.1 The following overall and specific **objectives** will be pursued:

The **overall objective** is to facilitate movement of people, diversify professional cross-regional networks as well as empower the young generation. In addition, create better links between research and innovation actors and the business community, and between education and the labour market.

Specific objectives include:

- support to the Mobility Partnership and the future potential visa liberalisation dialogue;
- improve border management system;
- modernise the education system, improve skills and competences development and support enhancing Vocational Education and Training;
- support to innovation development.

3.4.2. For each of the specific objectives the main expected **results** are:

- gradual implementation of the visa liberalisation benchmarks based on a visa liberalisation Action Plan and continued implementation of the Mobility Partnership;
- enhanced mobility through integrated border management;
- strengthened quality of vocational education and training; enhanced employability of graduates;
- enhanced research, innovation and commercialisation; improved research and innovation ecosystem.

3.4.3. The main **indicators** are:

- track record of implementation of EU-Armenia Visa Facilitation and Readmission Agreements, including number of reintegrated migrants maintained;
- continued implementation of the Mobility Partnership;
- modernised border crossing points in Meghri;
- proportion of population having completed at least upper secondary educations;
- percentage of VET graduated in employment or further study after 6 months of graduation;
- number of Armenian institutions or companies participating in Horizon 2020;
- smart specialisation strategies identifying key priorities for economic modernisation developed.

3.4.4. Donor coordination and policy dialogue

The EU-Armenia Visa facilitation and Readmission agreements came into force in January 2014. The CEPA stipulates that the parties shall continue to promote mobility of citizens through visa facilitation and consider in due course the opening of a visa dialogue provided the condition for well managed and secure mobility are in place. European Union has been strongly engaged in the reforms in a number of areas such as Justice, Migration and Border management. The EU4Innovation initiative in the Eastern Partnership looks to consolidate EU support in the area of innovation.

While donor coordination in this sector requires further improvement, the efforts of Armenia cooperation partners have been well coordinated by the Deputy Prime Minister through the development partners' forum organized on a quarterly basis, and different thematic donor groups (social services; migration and asylum management; and gender). The EU Joint analysis conducted in 2016 under Joint Programming offers a good basis to further support coordination and complementary of stakeholders building on a shared recommendations. In particular, at the technical level, donors have agreed on a "joint analysis" in the sector of migration and border management.

3.4.5. Armenia's **financial and policy commitments**

The Armenian Ministry of Foreign Affairs, as the national co-ordinator for this process, has done a preliminary analysis of requirements in the area of Visa Liberalisation. This analysis will be used to start addressing the requirements as soon as the Commission elaborates the Action Plan upon request from the EU Member States and presents it to Armenia. Thus, in the mid-term perspective, government priorities are likely to be influenced by the possible advent of the Visa Liberalisation Action Plan.

Armenia will have to fulfil a number of requirements in the fields of document security, illegal migration, public order and security (including anti-corruption, money laundering, international legal cooperation, and data protection) and fundamental human rights.

3.4.6. When needed, the appropriate type of **environmental assessment** (SEA or EIA) will be carried out according to EU standards as part of annual programming of financing actions under this priority sector.

3.4.7. The overall **risk assessment** of the sector intervention is:

The main risk to achieving progress vis-à-vis the above-defined objectives is the lack of government commitment to promotion and coordination of the relevant policy measures and criteria, especially regarding the future potential Visa Liberation Dialogue. This risk will be mitigated through policy dialogue, including monitoring of the Government's fiscal commitment.

3.5 Complementary support for capacity development and institution building (indicative 15% of total budget)

Capacity development and institution building measures will be integrated into sector reforms where necessary. In addition to sector-related assistance, this complementary provision for capacity development and institution building activities will address the implementation of priority commitments deriving from EU agreements or emerging challenges that are not covered under the three principal priority sectors.

Capacity development and institution building activities – either through sector-related assistance or from this complementary provision – may also address participation in EU programmes and in the work of EU agencies. Furthermore, the complementary provision will participate to foster communication on EU policies and activities in Armenia.

3.6 Measures in favour of civil society (indicative 5% of total budget)

In addition to sector specific support additional measures to support civil society will be made available under this complementary envelope. Funding from this component will be geared

towards strengthening the role of civil society in policy processes and accountability systems in other sectors than the priority sectors. This can include measures aiming to strengthen the CSOs' overall organisational capacity, to improve CSOs' financial sustainability through diversification of funds and capacity building, to promote purposeful and effective interaction between CSOs and other stakeholders, and to improve CSOs' performance in terms of service provision and engagement with beneficiaries.

Actions supported through this envelope are meant to address a broader range of civil society actors, including by reaching out to smaller and newer organisations particularly outside the capital city, or working on confidence- and peace-building activities in conflict and post-conflict situations. Pursuing tangible results for citizens, support to develop technical knowledge and expertise will go hand in hand with efforts to capitalise on the added value of civil society work.

4. Complementary support for capacity development/institution building and strategic communication (indicatively 15% of total budget)

The complementary provision for capacity development and institution building activities will address the implementation of priority commitments deriving from agreements with the EU or other emerging needs. Such measures will explicitly support sector reforms with a focus on government challenges. Funding under this heading may also facilitate participation in EU programmes and in the work of EU agencies.

Furthermore, through this complementary support communication on EU policies and assistance will be fostered, with a focus on effective communication with various audiences and on reducing the risk of fragmented communication. Support will also be provided to the emergence and consolidation of sustainable independent media.

5. Complementary support to civil society (indicatively 5% of total budget)

In addition to sector specific support, measures to support civil society will be made available. These will be geared towards promoting the development of social enterprises, and strengthening the role of civil society in contributing to and monitoring implementation of policy processes and accountability systems in sectors other than the priority sectors, including on confidence- and peace-building activities in conflict and post-conflict situations. This can include measures aiming to strengthen the CSOs' overall organisational capacity, to improve CSOs' financial sustainability through diversification of funds and capacity building, to promote purposeful and effective interaction between CSOs and other stakeholders, and to improve CSOs' performance in terms of service provision and engagement with beneficiaries.

6. Complementary and reinforced support at regional level

The regional and multi-country programmes will continue to provide key complementary support to implement results to citizens in the context of the EaP priorities set in Riga and the regional multi-annual indicative plan. With regards to strengthening market opportunities, support will continue under the EU4Business Initiative the EU4Business Initiative to strengthen the business friendly regulatory environment, as well as EU4Digital, which will provide support to strengthening the digital economy within and across the region. It also includes

complementary programmes in the area of governance targeting specific needs from the security sector to the rule of law. Support to strengthening the international and regional connectivity agenda including on transport in line with the TEN-T network, energy and climate change and the environment will be provided both through relevant regional programmes (i.e. EU4Energy) as well as the Neighbourhood Investments Facility. Similarly, EU4Youth as well as continued programmes such as Erasmus+ will continue to benefit the mobility and people to people contacts.

Attachments

1. Sector of intervention framework and performance indicators (see template in annex)
2. Indicative timetable for commitment of funds (see template in annex)

Attachment 1. Sector of intervention framework

Sector 1: Economic development and market opportunities		
Specific objective 1: Further enhance Armenia's business environment and investment climate		
<u>Expected Outcomes</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Improved business environment including fair competition between economic actors	1) WB Doing Business ranking (baseline 2017: 38 out of 189) 2) SME Policy Index: (1) regulatory framework for SMEs, (2) operational environment for SMEs and (3) support services to SMEs and start-ups, baseline 2015: (1) 3.38, (2) 4.05, (3) 3.93 3) Established and functioning public-private dialogue platform (*) 4) Industrial production Index (NACE Rev. 2) (2010=100) – 143.1 (2015)	WB Doing Business, OECD SBA assessment Report, Government accountability report ESTAT
b) Improved financial infrastructure	1) Financial services meeting business needs (Global Competitiveness Report, baseline 2016-2017: 99 out of 138) 2) Affordability of financial services (Global Competitiveness Report, baseline 2016-2017: 87 out of 138) 3) Number of alternative sources financing for SMEs (*)	Government accountability report, Reports of the Central Bank, SME Survey Global Competitiveness Report
Specific objective 2: Support SMEs with special emphasis on sectors with high value-added, high growth potential in the regions and in agriculture, while ensuring a level playing field		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Enhanced access to finance and business advisory services	1) Number of SMEs benefitting from EU assistance (*) 2) Number of client-oriented business support organisations	National Statistics, Government accountability report, Atlas of Economic

(*) Deliverable from the *Joint Staff Working document, Easter Partnership – Focusing on Key Priorities and Deliverables 2020*

	<p>providing to their SME members with business development services in relation to the global market requirements</p> <p>3) Contribution to GDP (baseline 2012: 40%)</p> <p>4) Economic complexity index</p> <p>5) Number of agricultural SMEs benefiting from finance</p> <p>6) Number of banks offering agricultural credit</p>	Complexity
b) More balanced and inclusive development of the economy in the regions	<p>1) Regional share in Armenia GDP in the region</p> <p>2) Implementation of regional development strategies through projects</p>	National Statistics
c) Increased diversification of the agro-food sector	Reduction of the dominance of exports of the main exported products in relation to overall exports of agro-food products	National statistics
d) Increased farmer income in selected regions through improved competitiveness and diversification of production	Increase in the average monthly income of rural households in selected areas	National statistics
<p>Specific objective 3: Enhance human capital, including through better links between the education system and the labour market</p>		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Improved skills and competences of work force	1) Ease of finding skilled employees– male and female	Global Competitiveness Report
b) Improved mechanisms to match labour supply with demand	<p>1) Rate of employment (baseline 2015: 50,9%)</p> <p>2) Rate of economically active population (baseline 2015: 62,5%)– male and female</p> <p>3) Labour Market Information System (LMIS) accessibility to providers of education, social partners and wider population (*)</p> <p>4) Satisfaction rate of the LMIS direct users (*)</p> <p>5) Economic Activity Rate (15-64) % – 65.1 (2015) – males and females</p>	ESTAT

Specific objective 4: Enhance the links of Armenia’s production and trade potential to the value chains of regional and international markets		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Increased integration of Armenian trade into regional and international markets	1) Index of Export market penetration 2) Volume of exported goods (baseline 2015: 1,487 mil USD) 3) Percentage of trade with neighbouring countries (12% 2016)	WB report WITS, National statistics
Specific objective 5: Support structural reforms and economic governance in close cooperation with the IMF and World Bank		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Strengthened macro-financial stability, public finance management, and budget transparency	1) GDP growth (baseline 2016: 2.4) 2) Public and publicly guaranteed debt (baseline 2016: 54.7% of GDP) 3) Current account balance (percent of GDP, negative 2.9) 4) Score of PEFA report (Public Expenditure and Financial Accountability) 5) World Bank Budget Transparency Index	National statistics, IMF and WB reports
Specific objective 6: Support the development of green and circular economy		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Improved regulatory framework and enabling environment for transition to circular economy	1) Number of actions implemented towards circular economy	Reports
Specific objective 7: Support the development of innovative digital economy and the harmonisation with the EU's Digital Single Market		
a) Enhanced harmonization of Armenia’s digital markets with the EU's Digital Single Market	1) Independence of the telecom regulator; progress in spectrum coordination and roaming pricing harmonisation; 2) Pilot for cross-border eSignature and cross-border eServices for businesses; establishment of a CERT - Computer Emergency	European Commission, DG CONNECT, DG NEAR Relevant AM ministries, agencies EaP Panel on Harmonisation of Digital Markets

	<p>Response Team;</p> <p>3) Level of harmonisation on eCommerce, eCustoms and eLogistics legislation; pilot for cross-border eTrade;</p> <p>4) National coalition for digital skills and jobs in place;</p> <p>5) Well-structured, mapped and interconnected ICT innovation and startup ecosystems;</p> <p>6) Level of harmonisation in eHealth legislation; pilot for cross-border eHealth.</p>	<p>EU4Digital Implementation Monitoring Reports</p> <p>Studies, national AM statistics.</p>
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Sector 2: Strengthening institutions and good governance

Specific objective 1: Support reforms and capacity development in public administration in line with the Principles of Public Administration

<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) The Principles of Public Administration are implemented in selected areas	<p>1) Extent of compliance with the Principles of Public Administration</p> <p>2) Government effectiveness (baseline 2015: 49 percentile rank)</p> <p>3) Regulatory quality (baseline 2015: 61 percentile rank)</p>	<p>Assessment Report</p> <p>World Bank Worldwide Governance Indicators report</p> <p>SIGMA inputs</p>
b) Services meet the needs of the citizens and are provided in an efficient way including through further advancement of e-solutions	1) Citizen satisfaction with service delivery	Armenia country survey

Specific objective 2: Support implementation of efficient and democratic structure of administrative-territorial organization

<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Functional and sustainable local government units established through the measures of further consolidation and decentralization	<p>1) Number of municipalities</p> <p>2) Number of decentralized functions</p>	National Statistics
b) Performance and capacity of local government units strengthened	1) Local Democratic Governance (baseline 2016: 5,75 out of 7)	Freedom House, Nations in Transit Report

Specific objective 3: Support further strengthening of efficiency and predictability of the judiciary

<u>Expected Results</u>	<u>Indicators</u>	<u>Means of</u>
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		verification
a) The independence of the judiciary is strengthened	1) Judicial Independence (baseline 2016-17: 101 out of 138)	Global Competitiveness Report Peer Review Mission Report
b) The judicial system becomes more efficient and predictable	1) Backlog of civil and criminal cases (*) 2) Case disposition time (*)	Government accountability Report Peer Review Mission Report
Specific objective 4: Improve democratic governance and fight against corruption		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Functional system to fight against corruption including asset-declaration and mechanism to prevent conflict of interest in place	1) Independent anti-corruption institution fully operational (*) 2) Worldwide governance indicator and TI Corruption Perception Index (baseline 2015: 35 out of 100) 3) Continued implementation of OECD-ACN and GRECO recommendations (3rd-4th monitoring rounds), including in relation to business integrity and public procurement. 4) Number of asset declarations introduced and verified 5) Number of corruption cases reported, disaggregated by source (State or non-State actors), as well as number of investigations and convictions of these cases. 6) Asset Recovery Office in place with track record for identification, freezing, management and confiscation of unjustified wealth (number of cases and value).	Government accountability report Worldwide Governance Indicator and Transparency International report GRECO and OECD Anticorruption network (Istanbul Anti-Corruption action Plan) reports Justice, Freedom and Security sub-committee meetings Reports by the Police and Anti-Corruption Council
b) Enhanced protection of human rights	1) Global Gender Gap Index (baseline 2015: 102 out of 144) 2) Number of implemented recommendations of Universal Periodic Review 3) Number of Human Rights cases brought to Court and examined within regulated timeframe 4) Number of judgements taken to the European Court of Human Rights	World Economic Forum Report, UN/Council of Europe/OSCE/EU reports, Reports by international and national watchdog CSOs and Ombudsman, Ministry of Justice Reports

Specific objective 5: Increase capacity in fighting organised crime, including money laundering and cybercrime		
a) Increased capacity to fight organised crime including with effective asset recovery and financial investigation systems	1) Track record of convictions for organized crime, trafficking, and smuggling offences	Justice, Freedom and Security Sub-committee meetings Police Reports
b) Money laundering legislation is effectively implemented	1) Number of investigations and convictions of money-laundering cases.	MONEYVAL Reports FATF monitoring reports Reporting by the Office of the Prosecutor General
c) Enhanced capacity to fight cybercrime	1) Level of international Police Cooperation for fighting cyber crime 2) National Cybersecurity Strategy and/or Action Plan developed and implemented. 3) Level of implementation Convention on Cybercrime of the Council of Europe (Budapest Convention)	Government Reports Police reports/National Security Service Reports Council of Europe reports
Specific objective 6: Support statistical services to produce high quality official statistics		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
The availability and quality of official statistics is improved and supports improved policy making and governance; improved and increased usage of official statistics for evidence-based decision-making	More statistical indicators produced by the Statistical Office of Armenia in 2020 than in 2017	National statistics on the web site of the National Statistical Institute or in publications in the period 2017-2020

Sector 3: Connectivity, energy efficiency, environment and climate change

Specific objective 1: Improve governance of the transport and energy sectors

<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
1) Institutional structure informing the Government investment planning fully operational.	1) Prioritized infrastructure investment plan approved and implemented by the Government	Government accountability report
2) Improved road safety	1) Number of fatalities due to road accidents reduced (*) 2) National road safety action plans adopted and national road safety agencies/platforms established (*) 3) Road design standards in line with EU standards and vehicle technical inspection services operational according to EU standards (*)	

3) Improved energy sector governance (including in nuclear safety)	1) Energy data management system established and functioning at the central and local levels (*) 2) Armenian energy market, sustainable energy and nuclear safety rules harmonized with the EU rules (*) 3) Standards and instruments for measuring energy efficiency performance and implementing energy efficiency projects of buildings are in place and applied (*) 4) Stress Tests nuclear safety upgrades implemented, roadmap for the closure and safe decommissioning of Medsamor nuclear power plant adopted.	Government accountability report
Specific objective 2: Improve energy efficiency and usage of renewable energy		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Improved energy efficiency	1) Energy intensity 2) All Energy products net imports (Thousand TOE) – 2040 (2013)	National Statistics ESTAT
b) Increased share of renewable energy	1) Share of renewable energy sources in total power generation	National Statistics
Specific objective 3: Prioritise infrastructure investment in line with the extended core TEN-T		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Improved infrastructure taking into account the extended core TEN-T	1) Logistics Performance Index (baseline 2016 – 141 out of 160)	World Bank report
Specific objective 4: Develop the potential of the aviation sector (Open Skies Policy)		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Improved accessibility of Armenia	1) Increased number of passengers flying to and from Armenia 2) Finalisation of Common Aviation Area Agreement with the EU (*) 3) Liberalisation of aviation fuel market	Government accountability report

Specific objective 5: Enhance environmental protection and resilience		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) enhanced environmental governance	1) Improved on-line access to data and state of the environment analysis (*) 2) Environmental considerations are effectively integrated into other sectorial legislation, planning and laws.	Government accountability report
b) Enhanced support to green growth	1) Number of SMEs trained (*) 2) % of cost savings realised by enterprises due to cleaner production (*)	Government accountability report
c) Improved waste management	1) The share of waste recycled 2) Number of inhabitants covered by waste/separate waste collection 3) Total greenhouse gas emission (CO2 equivalent (1990=100) – 39.4 (2012) 3) Municipal waste collected (Kg/person/year) – 200.4 (2014)	National statistics ESTAT
d) Improved water and wastewater management	1) Number of water supply networks and systems improved 2) Number of inhabitants connected to main potable water and wastewater systems 3) Improved water monitoring	National statistics

Sector 4: Mobility and people-to-people contacts

Specific objective 1: Support to the Mobility Partnership and the future potential Visa Liberalisation dialogue

<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Gradual implementation of the Visa Liberalisation benchmarks based on a Visa Liberalisation Action Plan and continued implementation of the Mobility Partnership	1) Track record of implementation of EU-Armenia Visa Facilitation and Readmission Agreements including number of reintegrated migrants maintained 2) Track record of asylum requests in the EU 3) Number of Visa Liberalization criteria met (*) 4) Continued implementation of the Mobility Partnership	Assessment report

Specific objective 2: Improve border management system

<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Enhanced mobility through implementation of integrated border management	1) Regional trade flows 2) Modernised Border Crossing points in Meghri (*)	Government accountability report, national statistics
Specific objective 3: Modernise the education system, improve skills and competences development and support enhancing Vocational Education and Training		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Strengthened quality of vocational education and training b) enhanced employability of graduates	1) Increased number of graduates (*) Proportion of the population aged 20-24 having completed at least upper secondary education (%) – 72.2 (2015) – males and females disaggregated data available 2) Percentage of VET graduates in employment or further study after 6 months of graduation (*) 3) Percentage of graduates finding employment within 6 months after graduation 4) Rate of employment of young people	Government report
Specific objective 4: Support to innovation development		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Enhanced research, innovation and commercialization	1) Number of Armenian institutions or companies participating in H2020 (*) 2) Smart specialization strategies identifying key priorities for economic modernisation developed 3) Innovation cluster established (*) 4) Number of University and Industry Collaboration in Research and Development (baseline 2016-2017 – 92 out of 138)	Global Competitiveness Report
b) Improved research and innovation ecosystem	1) Number of recommendations implemented from EU peer review	

Attachment 2. Indicative timetable for commitments

	Indicative allocation
	2017-2020
SECTOR OF INTERVENTION 1 - Economic development and market opportunities	€50.4 million – €61.6 million
SECTOR OF INTERVENTION 2 - Strengthening institutions and good governance	€22.6 million – €26.4 million
SECTOR OF INTERVENTION 3 - Connectivity, energy efficiency, environment and climate change	€22.6 million – €26.4 million
SECTOR OF INTERVENTION 4 - Mobility and people-to-people	€22.6 million – €26.4 million
Complementary support for capacity development/ institution building and strategic communication	€22.6 million – €26.4 million
Complementary support in favour of civil society	€7.2 million – €8.8 million
<u>Total Commitments</u>	€144 million - €176 million