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European Neighbourhood and Partnership Instrument

Armenia

NATIONAL INDICATIVE PROGRAMME 2011-2013

Abbreviations

CIB	Comprehensive Institution Building
CPT	Committee for the Prevention of Torture
CSP	Country Strategy Paper
CSOs	Civil Society Organisations
DCFTA	Deep and Comprehensive Free Trade Area
EaP	Eastern Partnership
EC	European Commission
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ENP AP	ENP Action Plan
ENPI	European Neighbourhood and Partnership Instrument
GDP	Gross Domestic Product
IFIs	International Financial Institutions
IMF	International Monetary Fund
MDGs	Millennium Development Goals
NIP	National Indicative Programme
PCA	Partnership and Cooperation Agreement
REC	Caucasus Regional Environmental Centre
SPS	Sanitary and phyto-sanitary
TA	Technical Assistance
TACIS	Technical Assistance to the CIS
USAID	US Agency for International Development
VET	Vocational Education and Training
WB	World Bank

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PART ONE: EXECUTIVE SUMMARY

NATIONAL INDICATIVE PROGRAMME 2011 – 2013

The Country Strategy Paper 2007-2013 (CSP) for Armenia sets out the overall objectives of EU assistance, encompassing all its instruments and programmes. Based on the CSP, a National Indicative Programme for the ENPI was adopted for the period 2007-2010 and is being implemented. As envisaged by the ENPI Regulation, a review of the CSP was undertaken in mid-term. The Mid-Term Review confirmed the validity of the strategic priorities of EU assistance to Armenia until 2013. On this basis, this new National Indicative Programme (NIP) covering the period 2011-2013 was drafted by the Commission. It sets out the priority areas for bilateral EU assistance to Armenia.

The indicative amount for the 2011-13 NIP is €157.3 million.

Mid-Term Review

The principal objective of the CSP is to support the development of an increasingly close relationship between Armenia and the EU in the context of the ENP and based on the objectives defined in the Partnership and Cooperation Agreement (PCA) and the EU-Armenia ENP Action Plan.

The Mid-Term Review undertaken by the Commission in late 2008 concluded that the relations between Armenia and the EU have considerably deepened since 2007, but the main priorities identified in the CSP have remained essentially the same. There have been no significant changes in the legal framework for EU-Armenian bilateral relations, with the Partnership and Cooperation Agreement of 1999 remaining in force until a successor document is agreed. The EU-Armenian relations are expected to be further enhanced under the Eastern Partnership, with the prospect of upgraded contractual relations in the form of an Association Agreement, including i.a a Deep and Comprehensive Free Trade Area (DCFTA) once the conditions are met. The Armenian-Turkish normalisation process may result in the opening of the border, resulting in new needs for border crossing operations, and is therefore reflected in this programme.

Developments in Armenia

Since 2007, Armenia has made progress in democratic development and trade and economic reforms, including in the areas of judiciary reform and strengthening of the ‘Ombudsperson institution’, tax and customs reform, financial services, and competition policy. However, the challenge is to implement legislation effectively and to fight corruption. Civil society voiced concerns about the deteriorating media environment and freedom of assembly during 2008.

Armenia has enjoyed considerable economic growth since 2006 (13.3% in 2006; 13.7% in 2007 and 6.8% in 2008) and achieved good results in poverty reduction (down to 25% by 2008). However, it was severely hit by the financial and economic crisis at the end of 2008. The medium- to long-term impact of the crisis will depend to a large extent on external factors. While a certain recovery is expected before the implementation of this indicative programme, the crisis may continue to affect the most vulnerable populations and poverty may rise in rural areas.

Developments in EU-Armenian relations

Overall, the commitment of the Armenian government to the implementation of the ENP Action Plan remains strong, as demonstrated by deepening relations between Armenia and the EU, and Armenia's strong support for the Eastern Partnership. The prospect of deepening EU-Armenian relations under the Eastern Partnership implies an ambitious agenda for deeper bilateral engagement, including the upgrading of contractual relations. The Commission adopted the draft negotiating directives for the negotiation of an Association Agreement with Armenia on 30 October. Both the political and trade aspects of these negotiations would require continuous progress on reforms and the fulfilment of certain conditions which would require the EU support.

Indicative Programme 2011-2013

This Indicative Programme supports the implementation of the key objectives of the PCA and ENP Action Plan and the priorities of the Eastern Partnership, notably under its bilateral track, such as deeper political cooperation and trade and economic relations between Armenia and the EU, social and economic development between the regions in Armenia, and increased mobility and security to facilitate the movement of goods and persons. This programme also takes into account the implications of the changing situation in the region, such as the prospect of the opening of the Armenian-Turkish border.

Priority area 1 — Democratic structures and good governance

Strengthening of democratic structures, the rule of law and respect for human rights and fundamental freedoms are core areas of EU-Armenia relations, which are directly linked to Action Plan priority areas 1 and 2, and chapters 4.1 and 4.5.

The political crisis following the presidential elections in 2008 highlights the need for further consolidation of the democratisation process and the anchoring of European values in the political system and governance of Armenia. Sufficient progress towards the principles and values of democracy, the rule of law, and respect for human rights is one of the main preconditions for upgrading contractual relations under the Eastern Partnership.

A Justice Reform sector budget support is being initiated late 2009 under the ENPI 2008 Annual Action Programme. Prioritising support in this area is still justified given its political importance for EU-Armenia relations and the considerable needs.

Priority area 2: Trade and investment; regulatory alignment and reform

This priority area relates directly to Priority Areas 4 and 5 and chapters 4.4, 4.5 and 4.6 of the EU-Armenia ENP Action Plan, in relation to trade and investment facilitation and border management and migration.

The objective of promoting trade and investment between the EU and Armenia remains a major priority in the EU-Armenian relations. Support for trade and investment, regulatory approximation and reform needs special attention in the 2011-2013 programming period given the prospect of launching negotiations for an Association Agreement, including i.a. the establishment or goal of establishing a DCFTA

Emphasis should be placed on strengthening the institutional and administrative capacity to ensure regulatory convergence with the international and EU trade related laws and standards and effective implementation and enforcement of the approximated laws and standards.

Increased EC assistance may be needed if the prospect of opening of the border with Turkey materializes before the end of the programming period.

Priority area 3: Socio-economic reform and sustainable development

Socio-economic reform and sustainable development are among the main challenges faced by the Armenian government, and are directly linked to the EU-Armenia Action Plan, notably priority area 3 and chapters 4.3 and 4.7.

Regional development is one of the priorities of the Eastern Partnership under its bilateral track, which offers regional development programmes to address, for example, the needs for human capital and SME development. Addressing local needs for infrastructure will contribute to socio-economic reform and competitiveness in Armenia.

Indicative budget

The indicative budget for this National Programme is €157.3 million over three years. This includes a minimum of €32 million for the Eastern Partnership Comprehensive Institution Building programme, which will be devoted to preparing the foundations for Association Agreements (AA), including i.a. the objective of establishing Deep and DCFTAs. It also includes a minimum of €7 million reserved for Cohesion Policy under the Eastern Partnership.

The programme focuses on three priority areas:

<u>Priority area 1:</u> Democratic structures and good governance	30-35 %	€47-55 m
<u>Priority area 2:</u> Trade and investment, regulatory alignment and reform	20-25 %	€31-39 m
<u>Priority area 3:</u> Socio-economic reform and sustainable development	40-45 %	€63-71 m
<i>Total</i>	<i>100 %</i>	<i>€157</i>

PART TWO: INTRODUCTION: MID-TERM REVIEW

1. Introduction

This Indicative Programme for 2011-2013 is the result of the Mid-Term Review of the Country Strategy Paper (CSP) for Armenia 2007-2013 undertaken by the Commission in 2009. The MTR analysed the main political, economic and social developments in Armenia, the implementation of the ENP Action Plan, the development of new EU policies, and the results and impact of past EC assistance to Armenia, and concluded that the CSP for Armenia remains largely valid (see the checklist in Annex 1).

The principal objective of EC assistance to Armenia, as stipulated in the CSP, is to support the development of an increasingly close relationship between Armenia and the EU in the context of the ENP and based on the objectives defined in the Partnership and Cooperation Agreement (PCA), the EU-Armenia Action Plan, and the more recent European Neighbourhood Policy. The additional framework provided by the Eastern Partnership enhances the prospect of further deepening political, trade and economic relations.

Developments in Armenia

Since 2007, Armenia has made progress in democratic development, trade and economic reforms. Progress has been achieved in the areas of judiciary reform and strengthening of the 'Ombudsperson institution', tax and customs reforms, financial services, and competition policy. Armenia remains committed to further European integration.

The conduct of the February 2008 presidential elections was 'mostly in line with international standards' as assessed by the OSCE. However, the handling of the post-election situation raised concerns, in particular the state of emergency subsequently introduced and the arrest of activists for exercising their political rights. The political crisis during the aftermath of the presidential elections in March 2008 led to a number of temporary restrictions on democratic freedoms and human rights, and slowed down political reforms in the country. A number of shortcomings in the electoral process were reported at the municipal elections for the City of Yerevan in May 2009.

Progress was made on legislative reform in 2007, including increased powers for the National Assembly and improvements in local government, independence of the judiciary and freedom of the media. However, the need for real progress to implement legislation effectively and to fight corruption remains. Civil society voiced concerns about the deteriorating media environment and freedom of assembly during 2008. In terms of the development of new policies, a new judicial system was put in place in 2008. The Programme for Sustainable Development until 2021, adopted in October 2008, replaced the Poverty Reduction Strategy Paper. The government is focusing on trade and economic reform, reducing regional disparities and poverty, and combating corruption. The priority sectors for the government are taxation and customs, and e-governance. The government is also putting stronger emphasis on energy efficiency issues. Territorial administrative reform is being finalised, with streamlined territorial structures.

Armenia has enjoyed considerable economic growth since 2006 (13.3% in 2006; 13.7% in 2007 and 6.8% in 2008) and achieved good results in poverty reduction (down to 25% in 2008). However, it was severely hit by the financial and economic crisis at the end of 2008. During January-September 2009 the country experienced 18.3% negative economic growth, the budget deficit reached 5.7% in the first quarter of 2009, and remittances decreased by

30% compared to the same period in 2008. The medium- to long-term impact of the crisis will depend to a large extent on external factors and is difficult to predict. While a certain recovery is expected before the implementation of this indicative programme, it is likely that the crisis will continue to affect the most vulnerable populations and poverty may rise in rural areas.

Developments in EU-Armenian relations

Since the approval of the current CSP, relations between Armenia and the EU have intensified and are expected to be further enhanced under the Eastern Partnership, including the prospect of upgraded contractual relations in the form of an Association Agreement. A possible future Association Agreement could see significant enhancement of EU-Armenia relations across all areas of cooperation, including the establishment of a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Armenia once the necessary conditions for it have been met.

Until a new agreement is negotiated and enters into force, the Partnership and Cooperation Agreement (PCA), in force since 1 July 1999, will remain the legal basis for cooperation between Armenia and the EU. The EU-Armenia Action Plan, adopted on 14 November 2006, sets out mutually agreed political priorities for cooperation. Overall, Armenia remains strongly committed to the implementation of the ENP Action Plan and to closer integration with the EU. This is supported by a high-level EU Advisory Group, set up in March 2009. Armenia supports the Eastern Partnership (EaP), launched in Prague in May 2009, which offers an opportunity for deeper relations between the EU and six neighbouring Eastern countries.

The changes in horizontal external EU/EC policies are mostly covered by the current CSP. Climate change is covered by the priority area ‘cooperation in specific sectors, including transport, energy and the environment’. The CSP also covers migration, including issues related to readmission and asylum and to fighting terrorism and organised crime, including trafficking in human beings and drugs. The CSP includes a priority for trade-related issues, economic and social reform, poverty reduction and sustainable development. The CSP is updated in this Indicative Programme to take account of the new policy framework provided by the Eastern Partnership, with a strong emphasis on regional policy, comprehensive institution building, mobility and security issues, and trade-related issues. In addition, the CSP can accommodate the changing situation in the region resulting from the prospect of the opening of the Armenian-Turkish border.

This National Indicative Programme supports the implementation of the key objectives of the PCA and ENP Action Plan and those of the Eastern Partnership, notably deeper political cooperation and gradual trade and economic integration between Armenia and the EU, social and economic development of the regions in Armenia, and increased mobility and security to facilitate the movement of goods and persons¹. If the ENP Action Plan is replaced by another document during the implementation period of this NIP, the successor document should be used to guide assistance. This programme is also designed to provide support for the normalisation of Armenian-Turkish relations, which may result in the opening of the Armenian-Turkish border before the end of the programming period and create new needs for border crossing operations. The main new features in the NIP 2011-2013 are the strengthened focus on trade and the shift in focus from poverty reduction to socioeconomic development. This programme builds on the NIP 2007-2010 with the following priority areas: strengthening

¹ A key new instrument for strengthening administrative capacity under the Eastern Partnership is the Comprehensive Institution Building programme, described in detail in chapter 5.

of democratic structures and good governance, regulatory reform and administrative capacity building, and support for poverty reduction.

As regards technical and financial cooperation, the ongoing programmes under TACIS and ENPI continue to support progress in the main areas of the PCA and ENP Action Plan. No programmes under the ENPI have been completed to date. The Annual Action Programme 2007 on sector budget support for reform of vocational education and training (VET) has been ongoing since 2008, with the final verification mission due early 2010. Another VET ENPI programme was agreed in 2009. During 2011-2013, the government is expected to be able to take forward the VET reform without further EC budget support. A number of twinning projects are under implementation or in the final stage of preparation under the ENPI.

Overall, Armenia shows a good commitment to EC assistance and has a reasonable absorption capacity for EU funding. A preliminary lesson learned is that sector budget support appears to be a suitable tool for assistance in Armenia, complemented by capacity building tools. In the drafting of this Indicative Programme, note has been taken of the report on the preliminary findings of the Court of Auditors regarding the implementation of the ENPI in the South Caucasus, including the need to ensure more consistency between the ENP Action Plan and the programming documents and the need for enhanced dialogue with the partner country.

The EC's comparative advantages in Armenia are in areas such as sector reform, public administration reform, regulatory alignment with EU norms and standards, and institution building. These are based on the extensive expertise acquired by the EC and the EU Member States in the course of support for the transition countries under the TACIS programme and the support given during the previous enlargement process. These areas should also remain the main focus in the upcoming programming period.

Armenia is also covered by the Black Sea Synergy, a regional cooperation initiative covering the five eastern ENP countries as well as the Russian Federation and Turkey. The Black Sea Synergy is an EU sea-basin inclusive initiative aiming to solve problems that require region-wide efforts. The implementation of the Black Sea Synergy involves, *inter alia*, the establishment of partnerships, like the one concerning environment to be launched soon. Other sectors and cooperative schemes are currently also being explored.

The activities and initiatives described in this NIP 2011-13 will be complemented and reinforced by activities under the Regional and Inter-Regional Programmes 2011-2013. Armenia is also eligible for the Black Sea Cross-Border Cooperation Programme, so may receive additional funding during the period 2011-13. Resources for enhanced sector cooperation between relevant EC agencies and interested public bodies and authorities in Armenia will be provided as appropriate under the ENPI Inter-Regional Programme 2011-13. Armenia also continues to benefit from thematic programmes such as the European Instrument for Democracy and Human Rights, the Non-State Actors and Local Authorities in Development Programme, and the Instrument for Nuclear Safety Cooperation.

PART THREE: The Indicative Programme for 2011-2013

2. Main priorities and goals

Assistance provided under this National Indicative Programme for Armenia will focus on three priority areas. However, depending on developments regarding the peaceful settlement of the Nagorno-Karabakh conflict, the EC will be ready to provide specific assistance related to all aspects of conflict settlement, settlement consolidation and strengthening of relevant civil society actors. The EC is similarly ready to provide specific assistance in the event of the normalisation of Armenian-Turkish relations. The following three priority areas are suggested for the NIP 2011-2013:

Priority area 1: Democratic structures and good governance

- Sub-priority 1.1 Democratic institutions, rule of law and reform of the judiciary
- Sub-priority 1.2 Public administration reform, including local government and e-governance, public finance management, and the fight against corruption
- Sub-priority 1.3 Human rights and fundamental freedoms, civil society development

Priority area 2: Trade and investment, regulatory alignment and reform

- Sub-priority 2.1 Promoting trade and investment, in particular through market and regulatory reform, including in the areas of business environment, taxation and customs; support for the preparations for a future DCFTA with the EU
- Sub-priority 2.2 Sector-specific regulatory reform and strengthening of administrative capacity
- Sub-priority 2.3 Integrated border management and migration

Priority area 3: Socio-economic reform and sustainable development

- Sub-priority 3.1 Regional and rural development
- Sub-priority 3.2 Support for the development of infrastructure in the areas of transport, energy, the environment, electronic communications
- Sub-priority 3.3 Human development, including education and science, social services

The extensive cooperation between the partner country and the EU, based on the Eastern Partnership policy framework and existing and possible future contractual relations, requires that the ENPI NIP covers a relatively broad range of areas. The NIP priority areas in this programme should be covered during the programming period 2011-13. However, the indicative nature of this programme provides certain flexibility regarding the implementation of sub-priorities. The identification process for Annual Action Programmes provides an opportunity to assess the suitability and timeliness of addressing a sub-priority and to adapt the proposed measures to the evolution of EU policies and sector developments. In this respect, in order to ensure the necessary flexibility, expected results and related indicators are indicative and should be adjusted according to the specific design of the Annual Action Programme. In this process, care should be taken to ensure implementation of those sub-

priorities of key importance for deepening the relationship with the EU in the context of the Eastern Partnership and continuity in supporting reforms. Identification should take into account information from the ENP Progress Reports on the implementation of the ENP Action Plans and the work of sub-committees established under the PCA.

3. INDICATIVE BUDGET

Under the NIP 2011-2013, Armenia will receive €157.3 million from the European Neighbourhood and Partnership Instrument (ENPI). This includes a minimum of €32 million earmarked for the Comprehensive Institution Building programme (CIB) and a minimum of €7 million reserved for Cohesion Policy. If the CIB cannot be agreed or its implementation is delayed, the earmarked funds will be fully or partly reallocated to other programmes.

The National Indicative Programme for Armenia provides for the following indicative allocations for each priority in the period 2011 to 2013:

<u>Priority area 1:</u> Democratic structures and good governance	30-35 %	€47-55 <i>m</i>
<u>Priority area 2:</u> Trade and investment, regulatory alignment and reform	20-25 %	€31-39 <i>m</i>
<u>Priority area 3:</u> Socio-economic reform and sustainable development	40-45 %	€63-71 <i>m</i>
<i>Total</i>	<i>100 %</i>	<i>€157</i>

4. PRIORITY AREAS OF NIP 2011-2013

4.1. Priority area 1: Democratic structures and good governance (30-35 %)

Strategic context/justification

Strengthening of democratic structures, the rule of law, respect for human rights and fundamental freedoms are fundamental principles of EU-Armenia relations, directly linked to ENP Action Plan priority areas 1 and 2 and chapters 4.1, and 4.5. The political crisis following the presidential elections in 2008 highlights the need for further consolidation of the democratisation process and the anchoring of European values in the political system and governance of Armenia.

Sufficient progress towards the principles and values of democracy, the rule of law, and respect for human rights is one of the main preconditions for upgrading contractual relations under the Eastern Partnership. Improved rule of law and good governance, reduced corruption and strengthened state institutions are important for socio-economic development, including improving the investment climate in Armenia. Finally, progress in the area of democratisation and fundamental freedoms may contribute to the creation of more favourable conditions for resolution of the Nagorno Karabakh conflict and the consolidation of peace.

Improved public financial management is an important element in enhancing the public administration, increasing transparency and public accountability in government structures at all levels, and ensuring the effectiveness of the fight against corruption. Progress in the area of public financial management is also one of the preconditions for budget support. The EC has supported the PEFA assessment by the World Bank, and funded a Sigma assessment of public procurement. During 2011-2013, the EC will continue to address this area.

The strengthening of democracy should be accompanied by further promotion of citizens' rights and citizens' participation in public decision-making and more public control of state institutions at all levels. EC support is also required for further promoting and securing freedom of expression and freedom of the media as well as improving the electoral process.

Sub-priority 1.1: Democratic institutions, rule of law and reform of the judiciary

a) Long-term impact

The expected long-term impact will be to contribute to a society characterised by rule of law and the consolidation of democracy.

b) Specific objectives

To contribute to the development of a more independent, transparent, and efficient judicial system and stronger democratic institutions.

c) Expected results

- Increased impartiality and integrity of the judiciary and prosecutors in line with international standards.
- Increased efficiency of the administration of justice in line with international standards.

- Enhanced capacity of the judiciary, prosecutors and police to deal with the fight against corruption and organised crime.
- Easier access to justice for the general public, including for vulnerable groups and economic operators.
- Strengthened capacity of democratic institutions.
- Improved quality of the electoral process and administration in line with international standards.

d) Indicators of achievement²

- Increased public confidence in the judiciary and law enforcement authorities.
- Increased investigation of cases of alleged politically motivated crimes and abuses by the law enforcement system.
- Reduced number of pending court cases.
- Increased number of successfully concluded cases of corruption and organised crime dealt with by the law enforcement system.
- Improved access to justice through increased provision of legal aid;
- Strengthened capacity of the Ombudsman institution and the Parliament.
- Further improvement in the conduct of elections.

Sub-priority 1.2: Public administration reform, including local government and e-governance, public finance management, and the fight against corruption

a) Long-term impact

The expected long-term impact will be to contribute to developing a modern state in which the administration is oriented towards satisfying citizens' needs and capable of managing public finances in an accountable, transparent and effective manner.

b) Specific objectives

To strengthen local government structures and improve the quality of public services, as well the administration's capacity to improve public finance management and reduce corruption.

c) Expected results

- Implementation of public administration reform plans to reform local government structures in line with the European Charter of Local Self-Government.
- Effective implementation of the anti-corruption strategy and strengthened administrative capacity to fight corruption.
- Broader use of e-governance tools to enhance the efficiency of public administration.
- Transparent and well-functioning public finance management developed, including improved institutional capacities for public internal control and external audit.

d) Indicators of achievement

- Strengthened local government structures.
- Relevant strategic policies and good practices in the area of public administration reform created and implemented;
- Reduced perceived levels of corruption.

² All general indicators set out in this NIP will need to be further aligned (and specified) in the Annual Action Programmes.

- Enhanced efficiency of public administration, and improved public access to public information and services.
- Public financial management system, including improved institutional capacities for public internal control and external audit.

Sub-priority 1.3: Human rights and fundamental freedoms, civil society development

a) Long-term impact

The expected long-term impact will be to contribute to respect for human rights and fundamental freedoms, the active participation of civil society in public and social life, democratic and stable development in Armenia.

b) Specific objectives

- Respect for human rights and fundamental freedoms in line with international and European standards, regular consultation of civil society in decision-making.
- To ensure respect of media freedom.

c) Expected results

- Improved respect for human rights and fundamental freedoms by the judiciary, prosecutors, law enforcement bodies and penitentiary staff.
- Strengthened capacity of the Civil Society to express its voice in political, economic and social debates and channels;
- Increased use of systematic consultation of civil society on draft legislation;
- Improved and enforced legal and administrative framework to ensure respect of media freedom, including journalists' rights.

d) Indicators of achievement

- Enforcement of norms and regulations embedding human rights principles in the justice sector, including their monitoring and evaluation;
- Official procedure for civil society consultations introduced and the number of consultations increased;
- Increased media pluralism. .

4.2. Priority area 2: Trade and investment, regulatory alignment and reform (20%-25%)

Strategic context/justification

This priority area directly relates to Priority Areas 4 and 5 and chapters 4.4, 4.5 and 4.6 of the EU-Armenia ENP Action Plan, in relation to trade and investment facilitation and border management and migration.

The objective of promoting trade and investment between the EU and Armenia remains a major priority in the EU-Armenian relations. Support for trade and investment, regulatory alignment and reform needs special attention in the 2011-2013 programming period, given the prospect of launching negotiations for an EU-Armenia Association Agreement, including i.a.

the goal of establishing a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Armenia once the necessary conditions for it have been met. A future DCFTA will contain legally binding commitments to regulatory alignment in the areas of trade and investment. Their negotiation and implementation would require EU support. While trade will be a new focal area in ENPI support for Armenia, the EC is well-equipped to support this process due to its extensive global experience in this area.

Alignment of Armenia's trade- and investment-related legislation and procedures with the EU internal market and international norms would improve trade and investment opportunities for Armenia as well as the country's business and investment climate.

In order to facilitate the movement of goods and persons and contribute to the stability and security in the region EC assistance will be implemented as foreseen under the Eastern Partnership. Increased EC assistance may be needed if the prospect of opening of the border with Turkey materializes before the end of the programming period. Such assistance should be coordinated with regional programmes, including the South Caucasus Integrated Border management programme, and the Eastern Partnership flagship initiative on Integrated Border Management.

Sub-priority 2.1. Promoting trade and investment, in particular market and regulatory reform, including in the areas of business environment, taxation and customs; support for preparation of a future DCFTA³ with the EU

a) Long-term impact

The expected long-term impact is enhanced economic development and increased prosperity, better regulated markets in the country and enhanced trade and investment relations between Armenia and the EU.

b) Specific objectives

To facilitate trade and investment, including by gradually removing existing barriers, to support Armenia's preparations for negotiation and implementation of a future DCFTA with the EU; and to implement market and regulatory reform.

c) Expected results

- Reforms to promote trade and investment, including reduced existing barriers, introduced and implemented.
- Improved business environment.
- Armenia's increased preparedness to negotiate and implement a future DCFTA with the EU, with a particular emphasis on strengthening of institutional and administrative capacity.
- Market and regulatory reforms through gradual approximation and implementation of legislation and procedures with the EU and international laws and standards, accompanied by institutional and administrative capacity building (including upgrading of laboratories, control bodies and information systems as appropriate), notably in following areas:

³ This does not exclude the possibility that negotiations are ongoing.

- technical regulations, standardization, accreditation, certification, metrology, conformity assessment and market surveillance;
- sanitary and phyto-sanitary issues and animal welfare;
- tax and customs with a view to facilitating trade and combating fraud;
- intellectual property rights, with particular focus on the implementation and enforcement of the legislation to fight against piracy and counterfeiting

d) Indicators of achievement

- Trade and investment reform strategies in place and implementation ongoing.
- Increased levels of and more diversified trade and FDI (as demonstrated by relevant statistics);
- Enhanced capacity to negotiate and implement a future DCFTA with the EU, with a particular emphasis on strengthening institutional and administrative capacities (demonstrated by progress in the implementation of requirements for the DCFTA preparatory process).
- Increased degree of approximation with the EU and international legislation and procedures and strengthened institutional and administrative capacities in trade and investment related areas, in particular (i) technical regulations, standardization, accreditation, certification, metrology, conformity assessment and market surveillance, (ii) sanitary and phytosanitary issue and animal welfares, (iii) taxation and customs, (iv) intellectual property rights (as assessed by the EC assessments/progress reports).

Sub-priority 2.2 Sector-specific regulatory reform and strengthening of administrative capacity

a) Long-term impact

The expected long-term impact will be an improvement in the competitiveness of the Armenian economy as a result of increased regulatory convergence with EU norms and standards, including administrative and institutional capacity building in the transport, energy and environmental sectors.

b) Specific objectives

To align legislation and procedures with EU norms and standards, strengthen administrative and institutional capacity in the transport (road, railway, aviation), energy and environment sectors, and address climate change in relevant sectors.

c) Expected results

- Implementation of sector-specific regulatory reform and institution building in the transport, energy and environment sectors.
- Full application of international standards in the field of aviation and harmonisation with European standards, in particular in the field of safety and security.
- Increased mitigation and reduced effects of climate change through appropriate measures in the transport and energy sectors (including energy efficiency and renewable energy sources).

d) Indicators of achievement

- Increased level of regulatory alignment in the transport, energy and environment sectors.
- Further integration of Armenia in (pan-)European transport structures, including the Common Aviation Area.
- Reduced air pollution and increased energy efficiency.

Sub-priority 2.3. Integrated border management and migration

a) Long-term impact

The expected long-term impact is to facilitate the legal movement of goods and persons across borders as a result of improved border management.

b) Specific objectives

To improve border management through improved border control procedures and management systems and improved border infrastructure where appropriate; and to improve legislation on and the capacity to deal with migration and asylum issues.

c) Expected results

- The establishment of a policy and legal framework to facilitate the legal movement of persons and goods.
- Border control procedures and management systems aligned with the relevant EU *acquis* and best international practices.
- Improved border crossings with adequate border infrastructure, appropriate information systems, control/surveillance mechanisms;
- Increased capacity to combat human trafficking, in particular of women and children, and organised crime at borders.
- Implementation of Armenian national migration policy in line with European standards, including improved migration data management and prevention of illegal migration.
- Establishment of modern asylum systems.

d) Indicators of achievement

- Decreased waiting times at borders for persons and for customs clearance.
- Increased data exchange and inter-agency cooperation among all national services involved in border management and the fight against cross-border crime.
- Stronger institutional capacity to deal with migration and asylum issues.
- Adequate legislative framework on migration developed and implemented.

4.3. Priority area 3: Socio-economic reform and sustainable development (40-45 %)

Strategic context:

Socio-economic reform and sustainable development are among the main challenges faced by the Armenian government, and are directly linked to the EU-Armenia Action Plan, notably priority area 3 and chapters 4.3 and 4.7.

Supporting economic and social development is one of the priorities of the Eastern Partnership, which emphasises addressing local needs for local infrastructure, human capital and SME development. Under the Eastern Partnership, Armenia will benefit from assistance aimed at addressing economic and social disparities between regions within the country and increasing its internal cohesion through supporting economic and social development. This assistance can take the form of a regional development programme modelled on the EU Cohesion Policy. This programme should be agreed between the Commission and Armenia by mid-2012. To assist Armenia in establishing such a programme, assistance will be provided, as appropriate, in the form of twinning or technical assistance to design the programme and prepare the implementation structures. Such intervention should be based on the real needs of Armenia and take into account its territorial organisation.

Regional and rural development is of particular importance in the context of the global economic and financial crisis, which exacerbates existing regional disparities in access to employment and social and economic resources. The imbalances between men and women in terms of unemployment, access to entrepreneurship will be taken into account.

The EC could provide support to investment (such as preparation of projects with IFI involvement or investments) through this Indicative Programme. As a general rule, this kind of support would take place within sector budget support programmes in fields such as energy, transport, the environment, and electronic communications. Further conditions are that the investment does not reach the scope and scale of NIF funding and that they contribute to addressing local needs for infrastructure as noted in the Eastern Partnership communication.

The development of human capital, including upgrading the education and training systems with a view to convergence with EU standards and practices and improving social services will not only increase the competitiveness of Armenia and provide better prospects for socio-economic development but also contribute to democratic development and social stability in the country, and may positively contribute to the resolution of conflicts.

Sub-priority 3.1. Regional and rural development

a) Long-term impact

The expected long-term impact is to contribute to sustainable development, reduced regional disparities and increased social cohesion.

b) Specific objectives

To reduce economic and social disparities between the regions, to promote agricultural reform and rural entrepreneurship.

c) Expected results

- Enhanced entrepreneurship in the regions.
- Improved business environment in particular for SME development.

- Implementation of reforms in the agricultural sector to increase productivity and trade.
- Increased employment opportunities in the regions.

d) Indicators of achievement

- Reduced economic disparities between the regions.
- Increased number of registered SMEs in the regions.
- Enhanced productivity in the agricultural sector.
- Increased participation of all groups in rural development, including women.

Sub-priority 3.2. Support for the development of infrastructure in the areas of transport, energy, environment, electronic communications

a) Long-term impact

The expected long-term impact will be to contribute to strengthening the competitiveness of the Armenian economy and sustainable development through improved infrastructure in the areas of energy, transport, environment, and electronic communications notably in the regions.

b) Specific objectives

To address local needs for infrastructure and contribute to the preparation of selected infrastructure projects where appropriate in the areas of energy, transport, environment, and electronic communications.

c) Expected results

- Successful preparation of investment in selected infrastructure projects in line with EU priorities;
- Improved local infrastructure in the area of transport and environment;
- Improved energy efficiency through rehabilitated energy infrastructure.
- Improved access to means of electronic communications and the internet, notably in rural areas.

d) Indicators of achievement

- Selected infrastructure projects under preparation and implemented.
- Improved energy efficiency.
- Easier access and wider use of electronic communications.

Sub-priority 3.3. Human capital development, including education and science, social services

a) Long-term impact

The expected long-term impact will be to ensure better prospects for socio-economic development and poverty reduction in Armenia.

b) Specific objectives

Modernisation and of education and training systems in order to enhance socio-economic development, to facilitate integration into the European Higher Education Area and the further involvement with European Research Area, improved social services.

c) Expected results

- Enhanced convergence and improved quality and capacity of education and training systems in line with European standards and practices, including greater participation in relevant exchange programmes.
- Reforms undertaken in the area of higher education in accordance with the principles of the Bologna process.
- Stronger capacity of research structures (human and material resources), with a focus on scientific excellence, and increased involvement of Armenian researchers in European R&D programmes.
- Improved social services in the regions including in the area of childcare and child protection.
- Improved implementation of international agreements in the area of public health, notably addressing communicable and non-communicable diseases

d) Indicators of achievement

- Further implementation of reforms in higher education according to the Bologna principles and guidelines as measured by the Bologna scorecard, and increased participation in EU programmes in field of education such as Tempus and Erasmus Mundus.
- Further involvement with the European Research Area, as measured by an increased number of applications submitted and proposals selected in the EU Research Framework programmes, and increased research activity and capacity within universities.
- Improved social services in the regions including in the area of childcare and public health.

5. IMPLEMENTATION

The general principle underlying the programme is partnership to achieve joint policy objectives. Armenian counterparts should be included to the greatest possible extent in the design of programmes. In line with the Paris Declaration and the Accra Agenda for Action on aid effectiveness, preference should be given to a programme-based approach, and the country systems should be used as the first option for aid programmes. The priorities of this Indicative Programme directly derive from the ENP Action Plan and Eastern Partnership priorities, thereby ensuring a strong link between joint policy objectives and assistance cooperation. Continuity provides focus to EC assistance and can thus improve effectiveness and facilitate a clear division of labour among donors in Armenia. As too many small, stand-alone measures would result in administrative overload and delay implementation in general, Annual Action Programmes should contain a limited number of components.

Where relevant, stakeholders, including civil society organisations, should be consulted on the design of the measures to be implemented under this programme, and might be involved in the monitoring process. As appropriate, civil society organisations should be supported in their role of promoting reform and increasing public accountability in the sectors supported by the NIP.

Sector budget support programmes seek to enhance policy dialogue and increase government ownership in the reform process. Their design should be coherent with the priorities of the EU-Armenian ENP Action Plan or its successor document and their implementation should be linked with the ongoing policy dialogue. The identification of the programmes should be based on a Sector Readiness Assessment. The existence of a well-defined sector strategy, a sound macro-economic framework, and a sound public finance management system are necessary pre-conditions to sector budget support operations. General budget support could be considered provided it is demonstrated that this aid delivery mechanism can effectively support the priorities of the NIP.

Initial analysis of the use of sector policy support in Armenia shows that this modality appears to be a suitable tool for assistance in Armenia, complemented by other capacity building tools. Overall, the implementation of the new delivery mechanisms and financing methods such as sector policy support has started reasonably well in Armenia, with an ongoing sector budget support programme for vocational education and training (VET). A second sector policy support operation is to commence in the justice sector in late 2009, and a decision has been taken on follow-up sector policy support for VET. The Armenian government now shows a good willingness to advance on sector policy support. It is committed to meeting the conditions set, and the VET programme has managed to enhance inter-ministerial coordination. The experience of NIP 2007-2010 implementation shows the overall need for strong dialogue with the Armenian government throughout the process. However, since budget support programmes have only recently started and it is difficult to draw far-reaching lessons from their early phases, their further implementation should be monitored closely during the period of the NIP 2011-2013 to ensure their effectiveness in achieving ENPI objectives.

Support for infrastructure rehabilitation and development as part of a sector programme addressing a NIP priority area should, as a general rule, be designed in close cooperation with EIB, the EBRD and other International Finance Institutions. If such support can be financed from the Neighbourhood Investment Facility (NIF), this should normally be considered as the first option. Support for infrastructure in the sectors on transport, energy and environment

under this programme can be envisaged on the condition that the projects do not reach the scope and scale of NIF funding and that they contribute to addressing local needs for infrastructure. Whenever interest rate subsidies are considered, their relevance will be assessed on a case-by-case basis, and care should be taken to avoid significant market distortions.

Armenia has recently become eligible for twinning and TAIEX. The Armenian side has shown great interest in making use of these instruments. TAIEX has been extensively used, and the preliminary assessment is that it is useful for supporting Armenian reform. The first twinning programmes were launched late 2009, and a considerable pipeline of requests will have to be addressed during the programming period.

Armenia may receive support to co-finance participation in EU programmes, where these are open to the country⁴. Resources for enhanced sector cooperation between the EU agencies and interested public bodies and authorities in Armenia will be provided as appropriate under the ENPI Inter-Regional Programme 2011-2013.

The priorities set out in the NIP will be underpinned and supported by the results of research and development. In this regard, Armenia is encouraged to increase investment and capacity in research and development, in particular through an increased level of involvement of Armenian research entities in the 7th Framework Programmes (FP7)⁵.

Climate change is a key challenge affecting the global community across a wide range of policy areas⁶. In the implementation of this indicative programme, considerations regarding climate change causes (mitigation) and effects (adaptation) will be integrated within relevant areas of intervention. The different stages of the implementation process will make use of available climate risk screening methodology to improve the climate resilience of activities in the chosen area of cooperation. Gender as a cross-cutting issue will also be mainstreamed in all assistance measures.

In 2005 the Commission identified eleven priority areas⁷ where attaining ‘policy coherence for development’, i.e. synergies with development policy objectives, is considered particularly relevant. As a policy-driven instrument, the ENPI is particularly well-placed to accommodate this. As a result, the programmes and activities described in this NIP will – where possible – be designed in a way as to create these synergies with Armenia’s national development and reform policy objectives.

5.1. The Eastern Partnership Comprehensive Institution Building Programme

More intense bilateral cooperation under the Eastern Partnership provides the foundation for Association Agreements (AA), which would include i.a. the goal of establishing Deep and Comprehensive Free Trade Areas (DCFTAs) once the conditions have been met. The Association Agreement will deepen political association and foster trade and economic

⁴ This support must not exceed 10% of the programme budget, should be phased out degressively over time and, as a general rule, cannot cover more than 50% of the costs of participation.

⁵ See http://cordis.europa.eu/fp7/home_en.html for full information on FP7.

⁶ These include air, water, waste, nature protection, industrial pollution, agriculture, forestry, fisheries, energy, transport, infrastructure and urban planning, tourism, human, animal and plant health, education, research.

⁷ Trade; environment; security; agriculture; fisheries; social dimension of globalisation, promotion of employment and decent work; migration; research and innovation; information society; transport; energy.

integration, among other things by promoting further convergence towards EU legislation and standards and providing for mutual market access.

The Comprehensive Institution Building programme (CIB) is a medium-term planning and implementation framework developed jointly by the Commission and Armenia. It is intended to assist Armenia with institution building for a limited number of core institutions that are central in preparing the ground for and implementing future Association Agreement which would include i.a. the goal of establishing Deep and Comprehensive Free Trade Area (agreement driven). It will focus on a few selected core institutions (or clusters of institutions) that will have a central role in the implementation of the new Association Agreements. Through a comprehensive approach it will seek to enable these institutions to assume obligations under the new agreements at the end of the programme. It will be based on clear commitments from the partner country and be co-financed in cash and/or in kind.

The CIB will be agreed by the Commission and the partner country government. A Framework Document will identify the CIB core institutions. Based on the Framework Document, institutional reform plans will be designed for selected institutions during 2010 in partnership with government representatives and EU Member States interested in contributing to the CIB. Preparatory and initial CIB measures may start in 2010 with full CIB financing to implement the institutional reform plans, provided through Action Programmes drawn up on the basis of this National Indicative Programme 2011-2013. The CIBs will be implemented through, for example, the provision of advice and training to the selected public institutions and through the provision and delivery of EU-standard equipment and the specialised infrastructure needed for its operation. Support will be provided using existing instruments such as Twinning or TAIEX, high-level advice and new innovative mechanisms. In order to ensure coherence, the CIB will build upon relevant aspects of ongoing cooperation activities.

A minimum of €32 million from the indicative allocation is earmarked for the CIB. Additional ENPI resources may be added as appropriate to strengthen the CIB. If a CIB cannot be agreed or its implementation is delayed, these funds will be fully or partly reallocated to other programmes.

6. RISKS AND ASSUMPTIONS

The key assumption underpinning this Programme is Armenia's continued commitment to the reform agenda and policy objectives in the jointly agreed EU–Armenia Action Plan and the underlying Partnership and Cooperation Agreement (PCA). Should this assumption no longer hold true, as a result of major policy changes on the Armenian side, e.g. in the context of upcoming parliamentary elections during the programming period, the priorities under this Indicative Programme and the underlying Country Strategy Paper may have to be subject to an early review. However, this risk is estimated to be very low.

In terms of risks in the delivery of assistance, budget support programmes will rely on continued improvements in public financial management, macroeconomic stability and the availability of mature sectors with strong sector strategies. Should these conditions not be met, the programmes would need to adapt and other forms of assistance, including capacity building, would have to be used to a greater extent. The impact of the economic and financial crisis could potentially inhibit Armenia's ability to meet the criteria for budget support.

7. ALIGNMENT, HARMONISATION AND CONSULTATION

The policy objectives set out in the EU–Armenia ENP Action Plan were formally agreed by the two sides on 14 November 2006.

Consultations with the Armenian authorities on this Indicative Programme started in February 2009 with discussions on an initial concept note. A programming mission was undertaken to Armenia in April 2009, when the main priorities and sub-priorities of this Indicative Programme were discussed with relevant stakeholders, including civil society. In line with the principles of aid effectiveness, consultations were held with other international donors. Increasing efforts have been undertaken by donors to improve regular donor coordination in Armenia.

It was agreed with the Armenian authorities that the future EC assistance strategy should be based on the jointly agreed policy objectives of the EU–Armenia Action Plan and support the priorities of the Eastern Partnership. To this end, a limited number of priority areas would be selected where there were high needs and EC financial assistance would have the most impact.

Throughout 2009, further discussions on the draft programme took place with the National Coordinating Unit of the Ministry of the Economy and the Armenian Ministry of Foreign Affairs, which are responsible for the coordination of cooperation with the EU.

The EC is committed to strengthening adherence to the principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. The responsibility for donor coordination within the Armenian government lies with the National Coordinating Unit of the Ministry of the Economy. This unit's role in regular and comprehensive donor coordination needs to be further strengthened. Currently, large donors have taken on a significant part of the donor coordination: the World Bank, USAID, UNDP and the EC. To this end, a number of thematic working groups have been established. However, the EC delegation should promote increased government ownership of donor coordination processes in line with the Paris and Accra commitments.

The EC Delegation has extensive cooperation with EU Member States through Heads of Mission discussions and ad hoc meetings on particular assistance issues. During 2011-2013, the EC Delegation should continue to play an active role in furthering regular EU coordination to promote the goals of the Eastern Partnership and the EU Code of Conduct.

Member States were briefed during the programming mission in April 2009 and were invited to comment on the EC's concept note for the National Indicative Programme. There were intensive contacts in Yerevan with the main donors (MS and bilateral donors, IMF, WB, CoE). Two round-table discussions were also held with civil society organisations. The EIB participated in the programming mission to explore the possibilities for cooperation.

The concept note for the National Indicative Programme 2011-2013 was put on the European Commission's website for public consultation in May 2009. A number of international organisations (IOM, UNICEF) and a number of civil society organisations submitted comments in writing.

8. ANNEXES

8.1. ANNEX 1: Country at a glance

Main data:

Land area:	29 800 sq km
Population:	3.0 m (2007)
Population growth	0.0% (2007)
Life expectancy at birth, total (years)	72 (2007)
Internet users (per 100 people)	5.7 (2006)

(data from the World Bank)



Table III.2.1:

Armenia - Main economic indicators

	2005	2006	2007	2008 prel.	2009 proj.
Real sector					
Real GDP growth (domestic currency, % change)	14.0	13.3	13.7	6.8	-5.0
GDP nominal (Dram, billion)	2200	2656	3149	3650	3690
GDP nominal (EUR, billion)	3.9	5.1	6.7	8.2	7.9
GDP nominal (USD, billion)	4.9	6.4	9.2	11.9	10.3
GDP per-capita (EUR)	1223	1584	2081	2526	2453
GDP per-capita (USD)	1523	1983	2857	3695	3203
Inflation (average)	0.6	2.9	4.4	8.9	3.6
Social indicators					
Unemployment (off. registered, average, %)	8.2	7.2	6.7	6.3	
Poverty rate (% population)	29.8	26.5	25.0		
Income inequality (Gini, %)		0.369			
Population (million)	3.2	3.2	3.2	3.2	3.2
Fiscal sector					
Total revenues (including grants, % GDP)	17.8	18.0	20.1	19.9	21.1
Total expenditure (% GDP)	19.9	20.0	22.4	21.6	23.9
Central govt. balance (% GDP)	-2.0	-2.1	-2.2	-1.2	-3.9
Central govt. balance ⁽¹⁾ (% GDP)	-2.3	-2.3	-3.0	-1.7	-4.9
Gross public debt (% GDP)	24.3	18.7	17.4	15.8	25.0
External sector					
Current account balance (% GDP)	-3.9	-1.4	-6.4	-12.6	-11.4
Trade balance (% GDP)	-13.2	-14.0	-17.3	-22.2	-20.0
Remittances (inflows, USD million)	752	960	1319	1635	
Remittances (% GDP)	15.3	15.0	14.3	13.7	
Foreign direct investment (net, % GDP)	5.1	5.3	7.2	5.8	
External vulnerability					
External public debt (% GDP)	22.0	19.0	16.0	14.0	22.0
Debt service ratio (% of exports of goods and services)	4.4	3.9	2.9	3.0	5.8
Gross reserves (excl. gold, USD million)	667	1072	1657	1405	
Financial sector					
Exchange rate (DRAM per EUR, average)	570.4	521.2	467.8	447.3	470.0
Exchange rate (DRAM per USD, average)	457.7	416.0	342.1	305.8	360.0
Real effective exchange rate (2000=100)	97.5	106.3	123.5	305.8	320.8
Human development					
Human development index	0.732	0.695	0.735	0.767	0.777

⁽¹⁾ Central Government Balance excluding grants and external interest payments

Sources: IMF, EIU, Armenian authorities.

8.2. ANNEX 2: MDG data

Millennium Development Goals			
	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger			
Employment to population ratio, 15+, total (%)	37	38	40
Employment to population ratio, ages 15-24, total (%)	21	23	26
GDP per person employed (annual % growth)	9	4	11
Income share held by lowest 20%	5.4	7.6	..
Malnutrition prevalence, weight for age (% of children under 5)	..	2.6	4.2
Poverty gap at \$ 1.25 a day (PPP) (%)	5	4	..
Poverty headcount ratio at \$ 1.25 a day (PPP) (% of population)	18	18	..
Prevalence of undernourishment (% of population)	34	..	21
Vulnerable employment, total (% of total employment)	..	..	..
Goal 2: Achieve universal primary education			
Literacy rate, youth female (% of females aged 15-24)	..	100	100
Literacy rate, youth male (% of males aged 15-24)	..	100	100
Persistence to last grade of primary, total (% of cohort)	..	79	98
Primary completion rate, total (% of relevant age group)	..	100	98
Total enrolment, primary (% net)	..	93	94
Goal 3: Promote gender equality and empower women			
Proportion of seats held by women in national parliaments (%)	6	3	9
Ratio of female to male enrolments in tertiary education	..	109	120
Ratio of female to male primary enrolment	..	101	103
Ratio of female to male secondary enrolment	..	106	105
Share of women employed in the non-agricultural sector (% of total non-agricultural employment)	50.8	47.3	45.7
Goal 4: Reduce child mortality			
Immunisation, measles (% of children aged 12-23 months)	96	92	92
Mortality rate, infant (per 1 000 live births)	42	32	22
Mortality rate, under-5 (per 1 000)	48	36	24
Goal 5: Improve maternal health			
Adolescent fertility rate (births per 1 000 women aged 15-19)	53	40	30
Births attended by skilled health staff (% of total)	96	97	98
Contraceptive prevalence (% of women aged 15-49)	..	61	53
Maternal mortality ratio (modelled estimate, per 100 000 live births)	..	..	76
Pregnant women receiving prenatal care (%)	82	92	93
Unmet need for contraception (% of married women aged 15-49)	..	12	13
Goal 6: Combat HIV/AIDS, malaria, and other diseases			
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..
Condom use, population aged 15-24, female (% of females aged 15-24)	..	7	..
Condom use, population aged 15-24, male (% of males aged 15-24)	..	32	..
Incidence of tuberculosis (per 100 000 people)	47	71	72
Prevalence of HIV, female (% aged 15-24)	..	..	0.1
Prevalence of HIV, male (% aged 15-24)	..	..	0
Prevalence of HIV, total (% of population aged 15-49)	..	0.1	0.1
Tuberculosis cases detected under DOTS (%)	12	47	51
Goal 7: Ensure environmental sustainability			
CO2 emissions (kg per PPP \$ of GDP)	0.8	0.6	0.3
CO2 emissions (tonnes per capita)	1.1	1.1	1.4
Forest area (% of land area)	12	11	10
Improved sanitation facilities (% of population with access)	89	89	91
Improved water source (% of population with access)	91	93	98

Marine protected areas, (% of surface area)	..	..	..
Nationally protected areas (% of total land area)	..	..	8.7
Goal 8: Develop a global partnership for development			
Aid per capita (current US\$)	67	70	117
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	3	8	2
Internet users (per 100 people)	0.1	1.3	5.7
Mobile cellular subscriptions (per 100 people)	0	1	62
Telephone lines (per 100 people)	18	17	20
Other			
Fertility rate, total (births per woman)	2.0	1.7	1.7
GNI per capita, Atlas method (current US\$)	450	660	2.630
GNI, Atlas method (current US\$) (billions)	1.5	2.0	7.9
Gross capital formation (% of GDP)	18.4	18.6	37.2
Life expectancy at birth, total (years)	70	71	72
Literacy rate, adult total (% of people aged 15 and above)	..	99	99
Population, total (millions)	3.2	3.1	3.0
Trade (% of GDP)	86.1	73.9	58.3
Source: World Development Indicators database			

8.3. Annex 3: Summary table of focal/non-focal areas of the Programme

Assistance provided under this National Indicative Programme for Armenia will focus on three main priority areas and nine sub-priorities

Priority area 1: Democratic structures and good governance

- Sub-priority 1.1 Democratic institutions, rule of law and reform of the judiciary
- Sub-priority 1.2 Public administration reform, including local government and e-governance, public finance management, and the fight against corruption
- Sub-priority 1.3 Human rights and fundamental freedoms, civil society development

Priority area 2: Trade and investment, regulatory alignment and reform

- Sub-priority 2.1 Promoting trade and investment, in particular through market and regulatory reform, including in the areas of business environment, taxation and customs; support for the preparations for a possible future DCFTA with the EU
- Sub-priority 2.2 Sector-specific regulatory reform and strengthening of administrative capacity
- Sub-priority 2.3 Integrated border management and migration

Priority area 3: Socio-economic reform and sustainable development

- Sub-priority 3.1 Regional and rural development
- Sub-priority 3.2 Support for the development of infrastructure in the areas of transport, energy, the environment, electronic communications
- Sub-priority 3.3 Human development, including education and science, social services

Indicative budget

Under the NIP 2011-2013, Armenia will receive €157 million from the European Neighbourhood and Partnership Instrument (ENPI). The indicative allocation is as follows:

<u>Priority area 1:</u> Democratic structures and good governance	30-35 %	€47-55 m
<u>Priority area 2:</u> Trade and investment, regulatory alignment and reform	20-25 %	€31-39 m
<u>Priority area 3:</u> Socio-economic reform and sustainable development	40-45 %	€63-71 m
Total	100 %	€157

8.4. Annex 4: Donor coordination matrix for ongoing activities in Armenia

Action Plan area / sector identified for reform	EC	EU MS	Others (non-EU)	IFI
Political dialogue and reform	✓	FI, EL, IT	NO	
Democracy and human rights	✓	FI, FR, EL, LT, PL, SE, UK	NO, US	CoE OSCE, UNDP
Rule of law and judiciary	✓	DE, EL, LT, UK,	NO, US	
Governance and public administration reform	✓	BG, DE, EL, IT, LT, PL, UK	NO, US	UNDP
Promotion of civil society	✓	PL	NO	
Peace and security				
Conflict prevention		UK		UNDP
Crisis management		ET, FR		
Military and de-mining		SL		
Fight against terrorism			US	
Cooperation on justice and home affairs		AT, FI		
Border management	✓			
Migration and readmission		FI		IOM
Refugees		FR	NO	IOM
Organised crime	✓			
Police and judicial cooperation			NO	
Economic and social reform	✓	PL	NO, US	IMF
Employment, poverty reduction and social policy	✓	DE, IT,	NO, US	UNDP, UNICEF
Agriculture and regional development		FR, EL	US	WB
Sustainable development	✓	EL, UK, DE	US	
Trade-related issues, market and regulatory reform				
Trade	✓	FI, DE, EL	US	

Technical standards and regulations	✓			
Auditing and accounting	✓		US	
Sanitary and phytosanitary issues		EL		
Transport, energy, the environment, the information society, research and development				
Transport	✓			WB, EBRD
Energy	✓	FR, EL, DE	NO, US	
Environment / environmental protection / climate change	✓	FR, EL, DE	NO, US	WB, EBRD, UNDP
Information society and audiovisual	✓	EL		
People-to-people contacts				
Education and culture	✓	FR, EL, IT, PL	NO, US	WB, UNICEF
Public health	✓	FR, DE, EL, IR, IT, PL	NO, US	USAID
Tourism		EL		
Other	✓			

8.5. ANNEX 5: Description of the MTR drafting process

The Mid-Term Review of the Country Strategy Paper for Armenia was conducted by the Commission in early January 2009. On the basis of an MTR checklist, the Commission concluded that, overall, the CSP for Armenia remained valid until the end of the period and no major revision of the paper was necessary. An update was recommended to accommodate the priorities of the Eastern Partnership and the changing regional situation resulting from the prospect of the opening of the Armenian-Turkish border.

Consultations with the Armenian authorities on this Indicative Programme started in February 2009 with a discussion on the initial concept note. More detailed consultations were undertaken during the programming mission in April 2009, when discussions were held with the main stakeholders. The main priorities and sub-priorities of this Indicative Programme were discussed with relevant ministries, representatives of civil society, the Member States and other donors (IMF, WB, CoE), and were preliminarily agreed with the Government at the end of the programming mission.

Member States were briefed on the outcome of the programming mission and were invited to comment on the concept note. The EIB participated in the programming mission to explore the possibilities for cooperation.

The concept note for the National Indicative Programme 2011-2013 for Armenia was put on the European Commission's website for public consultation in May 2009. A number of international organisations (IOM, UNICEF), a number of civil society organisations and one Member State submitted their comments in writing.

Through 2009, further discussions were held on the draft programming documents with the National Coordinating Unit of the Ministry of Economy and the Armenian Ministry of Foreign Affairs, which is in charge of coordinating the ENP Action Plan consultations.

8.6. ANNEX 6: Country Environmental Profile

1) State of the environment

The key environmental issues in Armenia are air quality, water quality, waste management, nature protection, and land use.

While emissions from stationary and mobile sources decreased in the 1990s, **air pollution** is becoming an important issue in urban areas.

As regards **water quality**, drinking water quality is being affected by deteriorating infrastructure. Wastewater treatment infrastructure needs upgrading. Lake Sevan, the primary water resource of the country, has been subject to overexploitation, resulting in a significant lowering of the water level.

Waste management is a serious challenge, including with regard to prevention, collection, treatment, recovery and final disposal. There is no disposal facility for hazardous waste. Stocks of obsolete pesticides constitute an important environmental problem.

As regards **nature protection**, Armenia's rich biodiversity is under threat from industrial pollution and increased pressures on forests and wetlands, among other things. Deforestation is an important challenge.

With regard to **land use**, soil erosion, mainly caused by poor agricultural practices and overgrazing, constitutes a challenge. A large part of the country is subject to desertification.

As regards **industrial pollution**, the main industrial activities relate to chemicals, electronic products, machinery, textiles and mining, entailing severe pollution.

Current **trans-boundary environment issues** include the use and protection of shared waters — in particular the Kura-Araks river basin, which is an essential source of fresh water for the Southern Caucasus region. Existing problems in the Kura river basin are related to both the quantity and quality of water. Water quality is affected by discharges of municipal and industrial wastewaters and return flow from agriculture.

As regards **global environment issues and climate change in particular**, Armenia acceded to the Kyoto Protocol in April 2003 and therefore needs to implement the relevant provisions and, where appropriate, implement concrete policies and measures to reduce greenhouse gas emissions, in particular in the energy and heavy industry sectors.

2) Environment policy

Armenia has adopted its second National Environmental Action Plan for the period 2008-2012, setting as priorities: air, land and water pollution; over-exploitation of natural resources and threatened ecosystems; and environmental health problems and hazards. The Sustainable Development Programme adopted in 2008 contains some objectives with regard to the environment.

Sector-specific action plans and strategies have been developed on desertification, biodiversity and specially protected areas, ozone-depleting substances, integrated water

resource management, waste, chemicals, and persistent organic pollutants. An action plan on Lake Sevan adopted in 1998 was amended in 2008. Work is ongoing to develop and implement existing strategies and plans, but continued attention is required.

In the field of climate change, Armenia has continued preparing its second national communication on **climate change**, which will also include a greenhouse gas inventory, a climate strategy, legislation, and national adaptation measures. An assessment of vulnerability and adaptability of the Marmarik river basin has been carried out. Armenia has taken steps to prepare and approve Clean Development Mechanism (CDM) projects, as well as to address their shortcomings. Five Armenian CDM projects have been registered at the UN level. The European Commission has continued to support Armenia to implement the Kyoto Protocol.

3) Environment legislation and implementation

The Constitution requires the state to protect the environment as well as to ensure rational use of natural resources. Adoption of an act on environmental protection is envisaged. Some steps have been taken to promote the implementation of strategic environmental assessment. A Law on Environmental Impact Assessment was adopted in 1995, which, together with the 1991 Principles of Legislation on Nature Protection, grant citizens the right to request environmental information and be involved in the decision-making process.

Concerning access to information and public participation, an inter-ministerial commission on implementation of the Aarhus Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters met for the first time in December 2008. Armenia's Aarhus Centres (the first was established in 2002) continue to be operational. However, procedures and consultations with the public on environmental impact assessment continue to require particular attention. Armenia has not published reports on the state of the environment lately.

The Ministry of Nature Protection has been preparing laws to introduce new environment quality standards aiming to reflect international practice and EU legislation. Sectoral legislation is in place in many areas, but requires further development, in particular on environmental impact assessment as well as on implementing legislation. A new Land Code was adopted 2001, followed by a Water Code and a Mineral Resources Code in 2002. The latest legislation includes laws on specially protected areas, hunting and hunting economy, ozone-depleting substances, environmental tariffs, and regulations to prohibit imports of cars not equipped with catalytic converters, together with government decisions relating to waste. Amendments have been adopted to laws on flora and fauna and to government decisions on specially protected areas, hunting, waters, natural monuments, air pollution, Lake Sevan and its national park. New legislation on environmental appraisal, genetically modified organisms and self-monitoring of compliance are under preparation.

Overall, environment legislation is in place in several areas, but still needs to be further developed, in particular with regard to implementing legislation. Armenia also faces difficulties with the implementation and enforcement of legal provisions due to limited administrative capacities and financial resources, especially at regional and local levels.

4) Administrative capacity

The Ministry of Nature Protection was established in 1991. A number of other ministries are also involved in environmental matters, such as the Ministries of Finance and the Economy,

Health, Agriculture, Internal Affairs, and Justice. The State Environmental Inspectorate is responsible for emission control, which is also performed by regional inspectorates. Water supply issues are dealt with under the State Committee on Water Management. The Environmental Monitoring Centre, the Hydro-Meteorological Department and the Geological Department carry out environmental monitoring activities.

Further strengthening of administrative capacity at all levels of the country is still a major challenge. Coordination between authorities requires attention. Some steps have been taken to integrate environment considerations into other policy sectors such as energy.

5) Participation in regional and international processes

Armenia has ratified the relevant **international and regional conventions** to which it is signatory, with the exception of the Strategic Environmental Assessment Protocol of the UNECE Convention on Environmental Impact Assessment in a Transboundary Context. Armenia has also not signed the UNECE Convention on the Protection and Use of Transboundary Watercourses and International Lakes. The implementation of several already ratified agreements requires particular attention.

Armenia participates in environment and climate cooperation under the **Black Sea Synergy** and the **Eastern Partnership**. As these initiatives were launched fairly recently, it is expected that regional and multilateral cooperation will significantly increase.

Armenia is participating in the Eastern European, Caucasus and Central Asia component of the EU Water Initiative, a regional component of the **EU Water Initiative** as announced at the 2002 World Summit on Sustainable Development. The initiative aims to promote better water governance and coordination between stakeholders. A national policy dialogue was established in 2006.

Armenia also participates in the **Europe and North Asia Forest Law Enforcement Governance (FLEG) process** concerning forest governance and the protection and sustainable management of forests in the region.

Armenia is a co-founder (together with Georgia, Azerbaijan and the European Commission) of the Caucasus Regional Environmental Centre (REC), which has been operational under a revised Charter as of 2007. The REC Caucasus, with headquarters in Georgia, addresses regional environment issues in the Southern Caucasus by promoting regional cooperation between various stakeholders at all levels, involving civil society, governmental bodies, local communities and the business sector. The REC Caucasus also aims to foster public participation in environmental decision-making.

6) Key environment areas where action is required

Armenia faces significant challenges in promoting environment protection. Key areas include air quality, water quality, waste management, nature protection and land use.

As regards climate change, Armenia needs to implement the relevant provisions of the Kyoto Protocol to the UN Framework Convention on Climate Change and to prepare for the implementation of a new agreement to succeed the Protocol. Particular attention needs to be devoted to mitigation and adaptation issues, and to ensuring the inclusion of relevant actions in all national plans and budgetary processes. Armenia has significant possibilities to use flexible mechanisms under this Protocol.

The country's institutional and administrative capacity requires further strengthening, in particular as regards strategic planning, implementation and enforcement. Further national support for the Regional Environmental Centre (REC) could assist Armenia in promoting environmental awareness and protection by providing a forum for cooperation between various stakeholders.

Key environment areas where action is required are identified in the environment and other relevant sections of the EU–Armenia Action Plan. It defines a set of priorities for action with regard to environmental governance, issue-specific activities, and international and regional cooperation on environment issues. Progress towards implementing the Action Plan will also contribute to achieving the objectives of the Partnership and Cooperation Agreement.