



**EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP
INSTRUMENT**

ARMENIA

**NATIONAL INDICATIVE PROGRAMME
2007-2010**

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1. INTRODUCTION

The EC-Armenia Country Strategy Paper (CSP) 2007-2013 was drawn up in close consultation with the Armenian authorities and will be formally adopted by the Commission. Member States, other donors and civil society organisations were consulted during the drafting process.

The principal objective of EC assistance to Armenia over the period covered by this strategy is to support the development of an increasingly close relationship between the EU and Armenia in the context of the European Neighbourhood Policy (ENP) and based on the policy objectives defined in the Partnership and Cooperation Agreement (PCA) and the EU-Armenia ENP Action Plan. The EC's assistance strategy focuses in particular on strengthening democratic structures and good governance, on further support for regulatory reform and administrative capacity building and on poverty reduction. It is fully aligned with the PRSP which was adopted by the government in August 2003.

Whereas the CSP provides a comprehensive overview of future EC assistance priorities encompassing all instruments and programmes and following the structure of the ENP Action Plan¹, this **National Indicative Programme 2007-2010 spells out in greater detail the focus of operations under the national allocation of the new European Neighbourhood and Partnership Instrument (ENPI)**. It is intended to guide planning and project identification by identifying a limited number of priority areas, together with the objectives and results to be achieved.

2. MAIN PRIORITIES AND GOALS

Assistance provided under this National Indicative Programme for Armenia should focus on **three priority areas**. However, depending on developments regarding the peaceful settlement of the conflict over **Nagorno-Karabakh**, the EC will be ready to provide **specific assistance** related to all aspects of conflict settlement and settlement consolidation.

¹ The **ENP AP** establishes as **Priority Areas** 1) Strengthening democratic structures and the rule of law, including reform of the judiciary and the fight against fraud and corruption; 2) Strengthening respect for human rights and fundamental freedoms; 3) Encouraging further economic development, enhancing poverty reduction efforts and social cohesion; 4) Further improving the investment climate and strengthening private sector-led growth; 5) Further convergence of economic legislation and administrative practices 6) Developing an energy strategy, including early decommissioning of the Medzamor Nuclear Power Plant 7) Contributing to a peaceful solution of the Nagorno-Karabakh conflict; 8) Enhanced efforts in the field of regional cooperation. Under "**General Objectives and Actions**" it is planned to focus on 1) Political dialogue and reform; 2) Contributing to a peaceful solution of the Nagorno Karabagh conflict; 3) Economic and social reform, poverty reduction and sustainable development; 4) Trade-related issues, market and regulatory reform; 5) Cooperation in the field of Justice, Freedom and Security; 6) Cooperation in specific sectors, including transport, energy and the environment; and 7) People-to-people contacts.

Priority Area 1: Strengthening of Democratic Structures and Good Governance

Sub-priority 1: Rule of law and reform of the judiciary

Sub-priority 2: Public administration reform, including local self government / public finance management / public internal financial control and external audit / fight against corruption

Sub-priority 3: Human rights, fundamental freedoms, civil society, people-to-people contacts

Priority Area 2: Support for Regulatory Reform and Administrative Capacity Building

Sub-priority 1: Approximation of legislation, rules and standards (mainly based on National Programme for PCA implementation and reflecting the ENP Action Plan priorities)

Sub-priority 2: Sector-specific regulatory aspects, including administrative capacity building

Priority Area 3: Support for Poverty Reduction Efforts

Sub-priority 1: Education

Sub-priority 2: Regional development and social services

3. INDICATIVE BUDGET

Financial resources available for Armenia under the National Indicative Programme for 2007-2010 are estimated at € 98,4 million. This overall allocation may be increased through allocations under a new “Governance Facility” which will reward those ENP countries which achieve the best performance in relation to governance issues.

The indicative breakdown of resources should be as follows²:

Priority area 1: Support for Strengthening of Democratic Structures and Good Governance	29,52 m € 30%
Priority area 2: Support for Regulatory Reform and Administrative Capacity Building	29, 52 m € 30%
Priority area 3: Support for Poverty Reduction Efforts	39,36 m € 40%

² Re-allocations between priority areas will be possible within the limits allowed by the relevant legal basis.

Depending on developments regarding the peaceful settlement of the conflict over Nagorno-Karabakh, the EC will provide specific assistance related to all aspects of conflict settlement and settlement consolidation.

4. PRIORITY AREA 1: SUPPORT FOR STRENGTHENING OF DEMOCRATIC STRUCTURES AND GOOD GOVERNANCE

4.1 Strategic context/justification

Strengthening of democratic structures, in particular of the rule of law and good governance are key priorities for the Armenian government and will require sustained support from the EC. These objectives link directly to ENP Action Plan priorities, as specified in particular in sections 4.1, 4.3., 4.5 and 4.7.

EC support did not focus on this area during the past but improvement on this front is considered to be very important to further improve trade and the investment climate in Armenia and in order to strengthen European values throughout all possible fields. Support in this area became more important after the successful Constitutional Reform in late 2005, which created a large successive need for follow-up reforms in order to implement constitutional changes.

In the light of constitutional changes, special assistance for supporting judicial reforms will be required to pursue the Action Plan objectives of guaranteeing the independence of the judiciary and improving its administrative capacity, and to ensure impartial and effective prosecution of offences and crimes. Improved access to justice and legal aid are very important issues to be supported too.

However, in this context continued public administration reform and improved public finance management are also crucial elements, in order to improve the institutional capacity, transparency and public accountability of all government structures. They are essential for ensuring the effectiveness of the fight against crime and corruption.

Measures in these fields should be accompanied by further promotion of citizens' rights and citizens' participation in the political, economic and social spheres - leading to stronger participation of citizens in public life and more efficient control of institutional bodies, law enforcement agencies and services, including at local level. This should also involve action to further promote and secure freedom of expression and freedom of the media. A regulatory framework for civil society is another important feature in this context.

4.2 Sub-priorities³

4.2.1. Sub-priority 1: Rule of law and reform of the judiciary

a) Long-term impact

- The expected long-term impact will be to help democratic structures, build up an independent judiciary and to ensure compliance of those structures with international and European standards and principles.
- Improvements in this field will also help to build more trust among foreign investors and entrepreneurs in government structures and hence also promote economic development.

b) Specific objectives

- The specific objectives are to support the effectiveness and independence of the judiciary, to strengthen its administrative capacity and to ensure impartial, effective and independent prosecution and judgement of crimes and other offences.

c) Expected results

- Improved efficiency, knowledge and integrity of all members of the judiciary (judges and prosecutors, officials within the Ministry of Justice and the penitentiary system);
- Improved working methods used by law enforcement agencies and prosecutors;
- Implementation of court system reforms;
- Improvement of the transparency and predictability of judicial acts;
- Simplified legal procedures and easier access for citizens and economic operators, including improvement of the free legal aid system;
- Increased awareness within the judiciary-, and law-enforcement agencies of human rights issues and fundamental freedoms.;

d) Indicators of achievement

Long-term impact level

- Increased effectiveness of the judiciary;
- Increased trust of citizens in the judiciary and respect for the rule of law.

Specific objectives level

- Greater independence of the judiciary (demonstrated by surveys among lawyers and litigators);

³ As far as possible, the definitions of expected long-term impact, specific objectives and results follow the objectives specified in the EU-Armenia ENP Action Plan. Objectives may have to be adjusted in line with the results of Action Plan implementation monitoring.

- Enhanced administrative capacities of the judiciary, as demonstrated by fewer court cases going to appeal and ultimately being annulled by higher courts and by shorter time periods for the handling of cases.

4.2.2. Sub-priority 2: Public administration reform, including local self government / public finance management /public internal financial control and external audit/ 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 close to citizens and oriented towards satisfying citizens' needs.

b) Specific objectives

- Improved quality and efficiency of services provided by public administrations;
- More trust in administrative bodies and decisions;
- Short but efficient procedures, organised in a way which reduces risks of corruption as much as possible and obeys the rules of efficient public finance management;
- Effective and efficient public internal control and independent external audit;
- Strengthened local government structures in line with the standards set out in the European Charter of Local Self-Government;

c) Expected results

- Further implementation of reform plans underway in selected ministries and state agencies;
- Further development of plans for more transparent, efficient and predictable public finance management, including public internal control and external audit;
- Reality tests of such plans in selected policy areas;
- High-quality support for implementing national administrative reform plans to strengthen local government in line with European standards;
- Stronger local government structures (demonstrated by strengthened management of local authorities and more "bottom-up democracy")

d) Indicators of achievement

Long-term impact level

- Properly functioning and efficient administrative system;
- High-quality personnel in government and administration;
- General reduction in corruption in different sectors;
- Increased government effectiveness in different sectors;
- Increased trust and satisfaction among citizens regarding government and administration.

Specific objectives level

- Increase in quality and quantity of services delivered;
- Fewer and simplified administrative procedures;
- Reduction in sources of corruption;
- Adoption of public internal control strategy and PIC-related legislation;
- Additional-/better anti-corruption mechanisms in place;
- Increased public information and transparency in administrative procedures;
- Popular touch in government structures (better involvement of citizens);
- Increased cost effectiveness in administration and government procedures.

4.2.3. Sub-priority 3: Human rights, fundamental freedoms, civil society, people-to-people contacts

a) Long-term impact

- Effectively and visibly improved respect for human rights and fundamental freedoms;
- Active participation of civil society in public and social life;
- Improved democratic and stable development in Armenia.

b) Specific objectives

- Ensuring respect for human rights and fundamental freedoms, including in the economic and social spheres, in line with international and European standards;
- Promoting the involvement of citizens in decision-making processes and controls, including through civil society organisations, e.g. consumer NGOs;
- Securing freedom of expression and freedom of the media;
- Effective freedom of speech;
- Effectively free media/-choice of non –government newspapers and TV channels;
- Effectively working system of state responsibility;
- Minimum salaries and pensions;
- Improved conditions in military and penitentiary structures;
- Enhanced cooperation between governmental and non-government players in different fields and sectors (-e.g. environment, education, health);
- Active social dialogue between social partners;
- Dialogue between private, public and civil-society stakeholders.

c) Expected results

- Increased awareness within the administration, the judiciary and law-enforcement bodies of human rights issues and fundamental freedoms;
- Improved transparency in decision-making structures and procedures;
- Improved respect for civil society organisations and structures;
- Better legal and administrative protection for human rights and fundamental freedoms;
- Free and independent press and other media;
- Institutionalised dialogue between relevant players with a view to ensuring sustainable environmental, economic and social development;

d) Indicators of achievement

Long-term impact level

- Visible signs and increased trust among citizens that human rights and fundamental freedoms are being respected.

Specific objectives level

- Stronger public participation and public discussion processes;
- Fully sustained levels of freedom of expression and media freedom (demonstrated by independent assessments, NGO reports, effectively censorship-free media etc.);
- Stronger social dialogue structures (demonstrated by the existence of effective tripartite cooperation and collective bargaining).

5. PRIORITY AREA 2: SUPPORT FOR REGULATORY REFORM AND ADMINISTRATIVE CAPACITY BUILDING

5.1 Strategic context/justification

Bringing the Armenian situation in line with the EU's internal market rules as envisaged in the PCA and the ENP Action Plan will require major efforts to approximate Armenian legislation, rules and standards with those of the EU. Some preparatory work for this has already been done with continued TACIS assistance for the drafting of the National Programme for the implementation of the PCA. Further support for carrying out this National Programme, -in line with priorities established together with the Armenian government-, could bring Armenia much closer to EU standards. In practical terms further progress in this area could have considerable positive impact on Armenia's economic development, by improving the chances for trade through improved approximation of standards to the EU, and on Armenia's business and investment climate, by ensuring more transparent, predictable and simplified regulations and procedures corresponding to European models and norms.

The EC is uniquely well-equipped to support this process since it can build on extensive experience gained in the process of accession of the ten new EU Member States. The National Programme for PCA implementation closely follows this model. When planning support in this area, emphasis should be placed not only on technical advice for approximation but, equally important, on administrative capacity building in order to ensure the highest possible level of ownership of the programme. Support for Armenia's participation in Community programmes, agencies and networks, insofar as these will be open to the country, will contribute to this process.

The EU-Armenia Action Plan identifies a considerable number of priority areas for regulatory reform in order to facilitate market and trade relations (in particular trade facilitation issues including customs legislation and procedures, technical regulations, standards and conformity assessment, sanitary and phytosanitary issues, consumer protection, establishment and company law, financial services and markets, competition

policy, taxation , SMEs, intellectual and industrial property rights, public procurement and statistics).

In addition, other sector-specific regulatory reform and administrative capacity building tasks will have to be addressed, with special reference to justice, freedom and security, energy, transport, agriculture and the environment.

Because of its special geopolitical situation and scarcity of mineral resources support for scientific and technological cooperation will be very important in Armenia in that context in order to promote sustainable and equitable economic development.

EC support in these areas should also link up directly with priorities of the ENP Action Plan, as specified in particular in Priority Areas 3, 4 and 5 and sections 4.3, 4.4, 4.5 and 4.6. As a general rule maximum flexibility will be required here in order to respond efficiently to evolving needs during ENP Action Plan implementation.

5.2 Sub-priorities

5.2.1 Sub-priority 1: Approximation of legislation, rules and standards (mainly based on National Programme for PCA implementation and reflecting ENP Action Plan priorities)

a) Long-term impact

- The expected long-term impact will be to contribute to the process of economic and social reform and development and Armenia's gradual alignment with the EU's internal market and social standards.

b) Specific objectives

- The specific objective is to facilitate trade and to achieve sustainable improvement of the business and investment climate, employment situation, social protection and governance.

c) Expected results

- Market and regulatory reform measures in the form of approximation of legislation and alignment of procedures (in particular in the areas of trade facilitation including customs legislation and procedures; technical regulations, standards and conformity assessment, sanitary and phyto-sanitary issues, consumer protection, establishment and company law, financial services and markets, taxation, competition policy, SMEs, intellectual and industrial property rights, public procurement and statistics.), based on PCA, ENP Action Plan and agreed implementation priorities;
- Implementation of regulatory reforms to promote trade and investment, including the removal of trade barriers and further liberalization as well as the reform of the tax system and administration;
- Enhanced administrative capacity of the customs administration and improvement of the customs legislation with a view to facilitating trade and securing the international trade supply chain (World Customs Organisation Framework of Standards);

- Implementation of legal and policy reforms in the employment and social area aimed at the modernisation of the system and at the approximation with EU standards and practices;
- Enhanced administrative capacity, notably of the trade and economics ministries and tax and customs authorities, to ensure effective ownership and enforcement of approximation efforts.

d) Indicators of achievement

Long-term impact level

- Economic and social development indicators and degree of internal-market alignment (as measured and assessed by the EU in relevant progress reports).

Specific objectives level

- Increased and more diversified trade, as demonstrated in trade statistics from government as well as independent sources;
- Improved investment climate, as demonstrated by increased FDI (independent assessments reports);
- Improved employment situation and social protection (independent statistics and data on job creation, social services).

5.2.2 Sub-priority 2: Sector-specific regulatory aspects, including administrative capacity building

a) Long-term impact

- Strengthening and boosting the competitiveness of the Armenian economy in different sectors and fields, in particular transport, energy, the environment, agriculture, the financial sector, the information society, and SMEs across all sectors;
- Further improvement in Armenia in the area of justice, freedom and security including border management and migration/asylum.

b) Specific objectives

- Regulatory convergence with the EU;
- Developing and improving administrative capacities in the above mentioned areas.

c) Expected results

- Sector-specific regulatory reforms and institution-building in line with the priorities in the Action Plan and detailed sectoral strategies;
- Enhanced administrative capacities in relevant ministries or other government structures in order to ensure appropriate ownership and effective reform implementation.

d) Indicators of achievement

Long-term impact level

- Visible/measurable improvement in key sectors (EU assessment studies/progress reports).

Specific objectives level

- High level of regulatory convergence with the EU in key sectors (assessed by the EU in relevant studies/progress reports).

6. PRIORITY AREA 3: SUPPORT FOR POVERTY REDUCTION EFFORTS

6.1. Strategic context/justification

Despite good macroeconomic performance and some achievements in fighting poverty within the framework of the PRSP (a revision of the strategy is expected before the end of 2006), the social situation in Armenia remains marked by sharp inequalities and strong social polarisation. The Gini coefficient (on incomes) decreased from 0.59 in 1999 to 0.44 in 2003⁴; however, 32% of the population are reportedly still living below the poverty line. In terms of poverty profile rural and less educated groups remain particularly vulnerable.

Poverty reduction is therefore one of the key goals of the Armenian government. Hence it is necessary and fully in line with the EU-Armenia Action Plan objectives that EC assistance focuses on support in further reducing poverty levels and social inequality.

A good way of achieving this is to contribute to and assist in further reforms and upgrades of the education system, including through exchange programmes, with a view to convergence with EU standards and practices. An improved educational system will also be essential to strengthen democratic development, social stability and economic competitiveness.

Other actions under this priority should focus in particular on helping development in rural areas by developing and implementing programmes at regional and local community level, especially aiming to improve the provision of and access to quality social services.

⁴ Ranges from 0 (perfect equality) to 1 (total inequality). Source: World Bank.

6.2. Sub –priorities

6.2.1 Sub-priority 1: Education

a) Long-term impact

- Contributing to achievement of the country-specific Millennium Development Goals developed for the Republic of Armenia;
- Contributing to the implementation of the GoA’s Poverty Reduction Strategy.

b) Specific objectives

- Reduce poverty levels and social inequality through better education levels
- Reform and improve education and training systems, including through exchange programmes;
- Further integrate Armenia into the European Research Area;

c) Expected results

- Improved quality and capacities of education and training systems in general and their convergence with EU standards and practices, including greater participation in relevant exchange programmes;
- Improved provision of and access to quality services, in particular in the field of education and social services;
- Improved economic development at local level;
- Better match of educational training and educational needs in the labour market.

d) Indicators of achievement

Long-term impact level

- Progress towards achievement of MDG Armenia specific indicators;
- Harmony between job demand and educational training provided.

Specific objectives level

- Reduction of extreme poverty figures;
- Higher net enrolment ratio in school education and VET;
- Match of VET with job demand;
- Improved education and training systems, as demonstrated by studies assessing progress in reforms and convergence with EU standards and practices.

6.2.2 Sub-priority 2: Regional development and social services

a) Long-term impact

- Contributing to achievement of the country-specific Millennium Development Goals developed for the Republic of Armenia;
- Contributing to the implementation of the GoA’s Poverty Reduction Strategy.

b) Specific objectives

- Reduce poverty levels and social inequality;
- Improve living standards for the poor.

c) Expected results

- Improved provision of and access to quality services, in particular in the field of social services;
- Further improvements in childcare and child protection;
- Improvements in municipal and regional infrastructure (especially education and social service facilities);
- Improved economic development at local level.

d) Indicators of achievement

Long-term impact level

- Progress towards achievement of MDG Armenia specific indicators.

Specific objectives level

- Reduction of extreme poverty figures;
- Effective improvement of social services in rural areas.

7. IMPLEMENTATION

The general principle underlying the programme is partnership to achieve joint policy objectives. The Armenian counterparts should be included to the greatest possible extent in the design of operations, thus emphasising the clear and necessary link between joint policy objectives and assistance cooperation. This involves equal efforts and exploring possibilities for co-funding from the Armenian side in order to demonstrate Armenia's commitment.

Programmes should contain a limited number of components with a certain built-in flexibility. While detailed implementation mechanisms will be worked out action by action, support for sector or multi-sector programmes, through sectoral budget support or general budget support is encouraged. Wherever necessary conditions are met, this could be the first choice for assistance in order to avoid too many small and stand-alone measures, resulting in administrative overload and delays in implementation.

New cooperation tools, like Twinning or TAIEX, are however expected to contribute to success in particular in the areas of regulatory reform and administrative capacity building. They should therefore be fully exploited. In the above mentioned areas flexibility will be important so that EC assistance programmes can be adapted to evolving policy priorities. Support will also be provided, as appropriate, for Armenia's participation in Community programmes, agencies and networks, insofar as these will be open to the country.

Interest-rate subsidies can leverage investments by international financing institutions in the environment, energy and transport sectors, as explained in the Country Strategy Paper.

8. 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 Co-operation 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 in 2007 or presidential elections in 2008, the priorities under this Indicative Programme and the underlying Country Strategy Paper might have to be subject to an early review.

As far as the move to new delivery mechanisms and financing methods such as budgetary support is concerned, the assumption is that further progress will be made with the development of well-defined sector policies. Care should be taken to ensure that necessary prerequisites for a budget support exercise are indeed established and the following conditions are met:

- (a) Public expenditure management is sufficiently transparent, accountable and effective;
- (b) Well-defined macroeconomic and sectoral policies are established by the country in agreement with donors and International Financial Institutions;
- (c) Public procurement procedures are open and transparent;
- (d) Precise objectives and benchmarks to be reached can be defined.

Further improved public finance management, with donor support, as appropriate, and a continued stable macroeconomic framework are considered a basis of this NIP.

9. ALIGNMENT, HARMONISATION AND CONSULTATION

9.1 Dialogue with the government and alignment with national policies

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

Consultations with the Armenian authorities on this Programme and the underlying Country Strategy Paper started with a programming mission in June 2006. It was agreed at that stage that the future assistance strategy has to be based on jointly agreed policy objectives, thereby selecting a limited number of priority areas where EC financial assistance would have the most impact. There was also agreement that the EU - Armenia Action Plan and the PRSP for Armenia are fully in line and thus jointly targeted under the EC's new assistance strategy.

Draft programming documents have been discussed with the National Co-ordinator, with the National Co-ordinating Unit and the Armenian Ministry of Foreign Affairs, which is in charge of coordinating the ENP Action Plan consultations. The Armenian side expressed broad agreement with the proposed programming outline.

9.2 Harmonisation and co-ordination with Member States, other donors, and civil society

Member States have been fully briefed and have been invited to comment on the EC's outline for the new national programming. Intensive contacts took place in Yerevan and in Brussels with all relevant donors (MS as bilateral donors USAID, MCC, EBRD, IMF, WB, UNPD, CoE). A extensive round-table discussion with civil society organisations took place during the first programming mission to Yerevan in June 2006.

Close donor coordination is to be continued and will be important in particular in preparing and implementing new sector-wide programmes for assistance.