



HIGH REPRESENTATIVE OF THE
EUROPEAN UNION FOR
FOREIGN AFFAIRS AND
SECURITY POLICY

Brussels, 27.3.2014
SWD(2014) 69 final

JOINT STAFF WORKING DOCUMENT

Implementation of the European Neighbourhood Policy in Armenia Progress in 2013 and recommendations for action

Accompanying the document

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

Neighbourhood at the Crossroads: Implementation of the European Neighbourhood Policy in 2013

{JOIN(2014) 12 final}
{SWD(2014) 70 final}
{SWD(2014) 71 final}
{SWD(2014) 72 final}
{SWD(2014) 73 final}
{SWD(2014) 74 final}
{SWD(2014) 92 final}
{SWD(2014) 93 final}
{SWD(2014) 94 final}
{SWD(2014) 95 final}
{SWD(2014) 96 final}
{SWD(2014) 97 final}
{SWD(2014) 98 final}
{SWD(2014) 99 final}
{SWD(2014) 100 final}

1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This document reports on the progress made in the implementation of the EU-Armenia European Neighbourhood Policy (ENP) Action Plan between 1 January and 31 December 2013, although developments outside this period are taken into consideration when deemed relevant. It is not a general review of the political and economic situation in Armenia. For information on regional and multilateral sector processes, readers should also refer to the Eastern Partnership (EaP) Implementation Report.

Numerous political contacts took place between the EU and the Armenian government during 2013. The Armenian Foreign Minister visited the EU institutions several times and a number of visits to Armenia by high-level EU officials also took place: these included visits by Commissioner Füle in July, and again in September together with Commissioner Vassiliou. The EU Special Representative for the South Caucasus and the crisis in Georgia also visited Armenia several times. The EU-Armenia Cooperation Council took place in Brussels in December.

The EU and Armenia completed negotiations on an Association Agreement, including a Deep and Comprehensive Free Trade Area (AA/DCFTA), in July, but could not proceed with initialling it, following Armenia's decision to apply to join the Eurasian Customs Union with Russia, Belarus and Kazakhstan. The EU and Armenia issued a joint declaration at the Eastern Partnership Summit in Vilnius in November 2013 at the beginning of a process of reflection to establish the future nature of their bilateral relationship. Both Visa Facilitation and Readmission Agreements were ratified in 2013 and entered into force on 1 January 2014.

As a result of progress in 2012 with reforms in the area of deep democracy and respect for human rights, Armenia benefited from an additional allocation of EUR 25 million under the EaP Integration and Cooperation programme in 2013, for the second consecutive year. These funds will support civil service reform and anti-corruption efforts, as well as border management and migration. The procedure for concluding the Protocol on a Framework Agreement on Armenia's participation in EU programmes advanced smoothly. On 11 December, the European Parliament gave its consent. The Council will now decide on the conclusion of the Protocol.

While Armenia continued to address issues related to human rights and fundamental freedoms, further work remains necessary, especially as regards the implementation and enforcement of legislation. The February 2013 presidential elections were seen as having been generally well-administered and characterised by respect for fundamental freedoms, although the final report by the Office for Democratic Institutions and Human Rights (OSCE/ODIHR) stated that there were serious problems with voting and counting, raising concerns about the integrity of the electoral process. Reform efforts continued, but public mistrust of the judicial system remained high and there was a lack of convincing results in the fight against corruption, including among the police and judiciary. The criminal code still did not comply with the UN Convention against Torture and there were numerous and consistent allegations of routine use of torture and ill-treatment in police custody. The Human Rights Defender, designated as the national preventive mechanism under the UN Optional Protocol to the Convention against Torture, lacked adequate resources to carry out his tasks effectively. There was a worrying increase in cases of attacks against civil society organisations, and inadequate follow-up by the the authorities.

Armenia continued to implement sound macroeconomic policies and structural reforms. It made further progress towards meeting the objectives of the Action Plan in the areas of macroeconomic policy, poverty reduction and social cohesion. After a year of strong real GDP increase, economic activity weakened significantly during 2013 and Armenia registered a steep rise in inflation compounded by the impact of poor weather and a hike in the gas price set by Russia. However, Armenia's public and external debts remain at sustainable levels. Further growth and economic development will depend on improvement of the business environment, sustainable fiscal consolidation and the global economic situation.

Armenia remained highly dependent on imported primary energy sources, with the only domestically produced primary energy being electricity from the country's hydroelectric plants and the Medzamor nuclear power plant (MNPP). Because MNPP cannot be upgraded to meet internationally recognised nuclear safety standards, its timely shutdown and decommissioning remained key objectives for the EU. However, Yerevan postponed the original closing date of 2016 to 2026 provided that alternative replacement capacity becomes available. Prompted by the Fukushima accident, Armenia undertook voluntary safety and risk assessments (stress tests) with a view to ensuring the safe operation of the MNPP until its shutdown, in close cooperation with the International Atomic Energy Agency (IAEA). The EU used its Instrument for Nuclear Safety Cooperation to support Armenia in continuing to carry out these tests, in respect of which a report is expected to be published in the first half of 2014.

For most of 2013, the stalemate continued in the Minsk Process, which aims to settle the Nagorno-Karabakh conflict. Election cycles in Armenia (February) and Azerbaijan (October) affected the progress. An escalation of the arms race and confrontational rhetoric, as well as tensions on the ground and around the potential launch of flights to Nagorno-Karabakh, did not contribute to a constructive atmosphere in the search for a solution. In an encouraging development, the Presidents of the two countries reconvened in November 2013 for the first time since January 2012 at a summit in Vienna, mediated by the OSCE Minsk Group Co-Chairs, at which they agreed to advance negotiations toward a peaceful settlement and to meet again in the months ahead. However, despite this positive development, there was an escalation of violence along the line of contact between the two sides in January and February 2014. The EU continued to give its full support to the OSCE Minsk Group Co-Chairs in their work to facilitate a lasting settlement. The EU Special Representative for the South Caucasus and the crisis in Georgia visited the region four times in 2013 in efforts to help defuse tension and to explore conflict transformation opportunities. The EU also financially supported peace-building activities through the 'European Partnership for the Peaceful Settlement of the Conflict in Nagorno-Karabakh' project, bringing together stakeholders across the conflict divide.

There was no real progress towards the normalisation of Armenia-Turkey relations, as promoted by the EU without preconditions on any side, although a 'tête-à-tête' meeting between the two Foreign Ministers took place in the margins of the Black Sea Economic Cooperation Organisation Foreign Ministers' meeting in Yerevan in December.

Prior to the presidential elections, Armenia addressed some of the key recommendations contained in the ENP progress report for 2012. It established a

working group headed by the Presidential Administration to submit proposals in response to the OSCE/ODIHR recommendations on elections. OSCE/ODIHR stressed the need to proceed towards electoral legal reforms in an inclusive manner. Further work was undertaken after the February elections and legislative amendments were to be finalised by the working group, the Ministry of Justice and ultimately by the National Assembly. Armenia set up a consultative body to prepare a constitutional reform by April 2014. It took some action against high-level corruption, but the Ethics Commission was still not effective. It continued developing the ‘regulatory guillotine’ programme that is expected to reduce the administrative burden as well as opportunities for corruption. It established a new Interagency Commission on the implementation of the Human Rights Protection National Strategy. It adopted amendments to the law on alternative military service and a law on equal rights and opportunities for men and women which, however, lacks a mechanism for complaints. There were limited developments regarding reforms in the public administration and some measures were taken to reform the judiciary and to advance sectoral reforms and regulatory approximation to the EU *acquis*.

On the basis of this year’s report and with a view to sustained implementation of the ENP Action Plan in 2014, Armenia is invited to:

- cooperate with and protect civil society; investigate the cases of attacks and intimidation of human rights defenders and ensure that the perpetrators are brought to justice;
- implement the OSCE/ODIHR recommendations concerning elections, in particular ensure a level playing field for all candidates and avoid the use of administrative resources for electoral purposes. Moreover, ensure pluralism in the broadcasting media;
- fully investigate the deaths that occurred during clashes following the March 2008 presidential elections and the allegations of ill-treatment in police custody;
- finalise the draft Law on Freedom of Conscience and Religion;
- ensure respect for the principle of non-discrimination and adopt comprehensive anti-discrimination legislation;
- continue the reform of public administration; especially intensify the prevention of and the fight against corruption;
- intensify the reform of the judiciary and the law enforcement;
- strengthen the implementation of governance reforms;
- work towards the earliest possible closure of the Medzamor nuclear power plant as well as speed up the implementation of the roadmap on energy efficiency and the target of 30 % of generated energy from renewable sources;
- step up efforts towards agreement on the Madrid Principles, as a basis for peace, in accordance with the commitments undertaken by the Presidents of Armenia and Azerbaijan within the Minsk Group; refrain from actions and statements that could heighten tension and undermine the peace process;
- promote an environment conducive to progress in the conflict settlement, encourage and support related peace-building activities;
- ensure unimpeded access for representatives of the EU to Nagorno-Karabakh and surrounding regions in support of conflict transformation activities in full complementarity with the efforts of the Minsk Group.

2. POLITICAL DIALOGUE AND REFORM

Violations persisted, although improvements were witnessed in the electoral process. Presidential **elections** took place in Armenia on 18 February 2013 and were generally assessed to be in line with international standards. At the same time, OSCE/ODIHR Electoral Observation Mission (EOM) noted a lack of impartiality on the part of the public administration, misuse of administrative resources, and cases of pressure on voters. Civil society organisations also highlighted abuse of administrative resources, bribery, inaccuracy in voting lists, and inaction on the part of law enforcement agents. The OSCE/ODIHR EOM final report stated that there were serious problems with voting and counting, raising concerns about the integrity of the electoral process. The OSCE/ODIHR EOM provided a list of recommendations for consideration by the authorities, political parties and civil society in Armenia. These recommendations should be read in conjunction with other recommendations offered previously by the OSCE/ODIHR, in particular in its final report on the 2012 parliamentary elections, and with the recommendations contained in the joint opinion on the Electoral Code of the OSCE/ODIHR and the Venice Commission. The working group on electoral reforms headed by the Presidential Administration made further proposals in response to recommendations, mainly from OSCE/ODIHR. The EU gave support to the electoral reform process.

Municipal elections took place in Yerevan on 5 May 2013. The preliminary conclusions of a delegation of the Congress of Local and Regional Authorities of Council of Europe (CoE) stated that the vote was technically well prepared, but advocated improvement of the counting process; violations, including multiple voting, were registered. Local observers (representatives of non-governmental organisations (NGOs)) noted psychological and physical pressure exerted on participants in the election process, including journalists.

The President set up a consultative body to develop a **constitutional reform** concept by April 2014. This body has consulted the Venice Commission and is preparing recommendations to the President.

Regarding the **independence of the judiciary**, implementation of the Judicial Reforms Strategy 2012-2016 is underway but public mistrust of the system and its integrity remains high and needs to be addressed. There are a number of proposed legislative amendments to the judicial code to strengthen the independence of the judiciary. The draft criminal and civil procedure code as well as the administrative procedures code were submitted for intergovernmental discussion. A new Justice Academy became operational at the end of January 2014.

Despite ongoing progress in the justice sector, delivered with support from the EU, the influence of the executive over judicial nominations remains a concern. More reforms are necessary in terms of **access to justice** including increasing the quality of the judicial process and capacity building of staff. More reforms are needed to promote and protect civil rights and tackle weak and arbitrary application of the rule of law.

Regarding **impunity**, no developments took place on the investigation of the deaths that occurred during clashes following the March 2008 presidential elections. In May, the National Assembly voted against an initiative to set up a temporary investigation committee.

The government generally respected **freedom of association** but attempts to amend the NGO law, ongoing since 2009, continued without a clear direction. The government will decide on a concept on the legal framework for civil society organisations on the basis of two parallel working groups which seem to provide contradictory recommendations. The existing law gives citizens, except military and law enforcement personnel, the right to form associations, including political parties and trade unions.

The constitution and the law provide for **freedom of assembly**. However, in 2013 there was an increase in reports of violence against civil activists and human rights defenders, as well as of harassment and undue pressure on peaceful demonstrators. Violations by the police were underlined by the Armenian Ombudsman but no perpetrators have yet been brought to justice. During the presidential election campaign there were also reports of local authorities hindering civil servants from attending opposition rallies, while promoting their participation in pro-government ones.

Regarding **freedom of expression and media**, criticism of government and public officials is, for the most part, tolerated. However, a number of issues remain taboo. Human rights defenders, journalists and others who hold minority views on controversial issues, such as gender and non-discrimination, protection of lesbian, gay, bisexual, transgender and intersex people (LGBTI) rights, the Nagorno-Karabakh conflict, and abuses within the armed forces, occasionally faced intimidation, harassment, threats and abuse.

Media independence remained insufficient and there were no developments regarding pluralism in the broadcasting media. Although the timeline for digitalisation was extended, there were no other amendments pertaining to media pluralism. Concerns over the consequences of digitalisation, namely the allocation of freed frequencies ('digital dividend') remained. At the same time, internet access improved and the legal framework removed obstacles to access and control of content.

Armenia was ranked 94th out of 177 in the Transparency International Corruption Perceptions Index 2013 with a slightly improved — but still very poor — score compared to 2012. However, Armenia has not developed an **anti-corruption** strategy, and although the government has mentioned plans for sectoral measures and a future comprehensive strategy, there were no concrete developments. In general, political power and economic interests tend to be closely intertwined in Armenian society which leads to a high degree of opacity in decision-making. Limited action was taken against high-level corruption, but the Ethics Commission is still not effective, and its mandate and procedures need strengthening. The government also continued developing the 'regulatory guillotine' and e-society programme, which is expected to reduce the administrative burden as well as opportunities for corruption. Legal provisions are in place, but results in the fight against corruption remain somewhat unconvincing, including among the police and judiciary. Real progress in this area remains fundamental to achieving progress in other reform areas including socio-economic improvements.

Regarding **security and law enforcement**, the government approved the 2013-2014 police reform programme and timetable in February. In September a new independent investigation body was announced, whose functions and role are not yet clear.

With respect to democratic control over **armed and security forces**, there were concerns about suspicious deaths in the armed forces under non-combat conditions, as well as the practice of hazing and other mistreatment of conscripts.

Other human rights and fundamental freedoms

In February the government submitted an interim report in accordance with the **UN Universal Periodic Review**. Armenia also signed the International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families in September.

The Action Plan stemming from the **National Strategy on Human Rights Protection** has been pending since November 2012. In February, a new Interagency Commission on implementation of the National Strategy provisions and Action Plan under the National Security Council was established and will start work once the document has been approved.

The legal definition of **torture** still does not include crimes with direct or indirect involvement of public officials, nor does its definition require any specific motive, and therefore it does not comply with the UN Convention against Torture. There were numerous and consistent allegations of routine use of torture and ill-treatment in police custody to extract confessions, and there is no independent complaints mechanism to deal with such cases in places of detention. Law enforcement institutions still failed to afford all detainees fundamental safeguards, including timely access to a lawyer, a medical doctor and the right to contact family members. Courts continued to routinely approve pre-trial detention without considering alternatives. The Human Rights Defender, who has been designated as the national preventive mechanism under the UN Optional Protocol to the Convention against Torture was provided in 2013 with adequate resources from the budget in order to enable him to carry out his tasks effectively.

The existing draft law on the introduction of a **probation service** is expected to be adopted in 2014 following the revision of the criminal procedural code. Poor conditions continued to persist in prisons, where insufficient healthcare, overcrowding and understaffing were widespread. The construction of a new prison according to EU standards was expected. The EU envisages providing support for penal reform to improve prison conditions.

Amendments to the law on **alternative military service** adopted in June established two types of alternative service — alternative military service for 30 months not connected with weapons and alternative labour service for 36 months not connected with the armed forces. This allows persons convicted of conscientious objection who were serving a sentence, or have been paroled, or whose sentence was not applied conditionally, to apply to perform alternative service. The law does not allow individuals to choose alternative service once they have started military service.

No developments took place regarding adoption of the Law on **Freedom of Conscience and Religion**. Cases of discrimination against minority religious groups in the workplace, society, and media continued to arise.

Women's political representation in Armenia was still very low. The Law on Equal Rights and Opportunities for Men and Women (which lacks a mechanism for complaints) was adopted in May by the National Assembly. However, there were

protests among certain groups regarding the concept of gender as defined in the law, accompanied by intimidation of **women's rights** defenders during August and September. On 22 November, the Women's Council under the Prime Minister reaffirmed the government's commitment to gender equality and to the UN Convention on the Elimination of All Types of Discrimination against Women (CEDAW). The Council also sought to ensure effective implementation of the new law.

The prevalence of **gender-based and domestic violence** remains alarming. There is still a lack of appropriate legal measures to protect victims of violence as well as punish the perpetrators, as the government rejected in February the draft Law on Domestic Violence that had been in preparation for several years. Instead, it proposed to incorporate suggested actions as part of amendments to other codes, a step criticised by local civil society. No developments took place regarding legislative steps to address the problem of sex-selective abortions. Armenia has one of the world's highest levels of birth masculinity (100 female against 114/115 male births, predominantly in central Armenia).

The Concluding Observations of the UN Committee on the **Rights of the Child** of July 2013 noted that there was inadequate implementation and enforcement of existing laws and regulations in this area. The National Programme for the Protection of Children's Rights 2013-2016 and other strategies and plans lack adequate financial resources and rely on funding by international organisations. Also, more efforts are necessary to reduce institutionalisation of children, particularly from disadvantaged families and children with disabilities. Juvenile justice still does not meet international standards.

The reform on introduction of integrated social services, aiming to reduce poverty and ensure full access of the most vulnerable families to social support and protection services, is currently underway, but does not include child protection. Further efforts are necessary as regards the introduction of the International Classification of Functioning to enable a shift from the medical to social model of understanding disability and special needs. According to the European Committee of **Social Rights** conclusions published in 2013, Armenia is not compliant with the European Social Charter in terms of measures to eliminate discrimination in employment and to provide protection in cases of termination of employment. There is as yet no legislation or policy document for ensuring that people with disabilities have effective protection against discrimination in employment or in the fields of housing, transport, communications, culture and leisure activities. Armenia committed to tackle this issue since the ratification in 2010 of the UN Convention on the Rights of Persons with Disabilities (UN CRPD).

Regarding **labour rights and trade unions**, some restrictions were placed on the right to strike, as well as restrictions for some groups (e.g. law enforcement professionals) with regard to joining trade unions.

No comprehensive legislation on **anti-discrimination was adopted**. An attempt by the Human Rights Defender to develop a draft law (with EU advisory support) met with intense opposition from several civil and religious organisations that accused the Ombudsman of destroying traditional family values. The draft was not presented to the Ministry of Justice. Sexual orientation and gender identity remained highly controversial issues in Armenia. The authorities' response to discrimination against

LGBTI people in particular continued to be slow and inadequate. The failure to condemn attacks was compounded by ineffective investigations and a failure to bring perpetrators to justice.

Armenia, chairing the Council of Europe Committee of Ministers, organised in October a high-level conference devoted to combating racism, xenophobia and intolerance in Europe.

Judgments of the European Court of Human Rights in relation to **property rights** and the use of eminent domain in Armenia have not been enforced by the government.

In the sphere of rights of people belonging to **national minorities**, state funding for the Coordination Council of National Minorities was increased twice; however, the financial means were distributed among the communities equally without assessing the relevant needs or size.

Other governance-related issues

There were limited developments regarding **public administration** reform and a strong lack of trust in the state institutions and their integrity could be sensed. SIGMA¹ experts have provided detailed comments to the Civil Service Council Policy Paper that was drafted in December 2012, aimed at the development of a new or widely amended Civil Service Law in line with European standards.

The government expressed intentions to increase the role of local governance in implementing a strategic framework for **regional development**, including the creation of a Regional Development Fund, for which the EU is providing support. Armenia also started discussions on a possible decentralisation process, which could lead to reducing the local governments/communities and the number of regions.

Although the Eastern Partnership **Civil Society** Forum National Platform was active throughout the year, the dialogue between the government and civil society continued to be irregular. The EU stepped up support for Armenian civil society in order to strengthen its capacity for monitoring the implementation of reforms. The Eastern Partnership Civil Society Forum National Platform for Armenia adopted a political position in January 2014.

Cooperation on foreign and security policy, regional and international issues, conflict prevention and crisis management

In 2013 Armenia aligned itself with 19 out of 32 EU Common Foreign and Security Policy (CFSP) declarations that the country was invited to support (35 out of 62 in 2012). Moreover, Armenia signalled its willingness to participate in EU Common Security and Defence Policy (CSDP) missions but has not yet sent a formal request to start negotiations aimed at concluding a relevant Framework Participation Agreement in the area of CSDP.

As regards the settlement of the Nagorno-Karabakh conflict, the stalemate in the Minsk Process persisted for most of 2013. Election cycles in Armenia (February) and

¹ Support for Improvement of Governance and Management is a joint initiative of the EU and the OECD, principally financed by the EU.

Azerbaijan (October) negatively affected progress. An escalation of the arms race and increasingly confrontational rhetoric, as well as tensions on the ground and around the potential launch of flights to Nagorno-Karabakh, did not contribute to a constructive atmosphere. In an encouraging development in November, the Presidents of the two countries reconvened for the first time since January 2012 in a summit in Vienna, mediated by the OSCE Minsk Group Co-Chairs, at which they discussed the way forward in the peace process and agreed to meet again the months ahead. A follow up meeting at the level of the two foreign ministers took place on 5 December in Kyiv during the OSCE Ministerial Council and the Minsk Group Co-Chairs travelled to the region on 15-19 December to discuss recent developments in the Nagorno-Karabakh peace process. However, January and February 2014 saw a deterioration in the situation following an upsurge of violence along the line of contact. The EU continued to fully support the OSCE Minsk Group Co-Chairs in their work to facilitate a lasting settlement. The EU Special Representative for the South Caucasus and the crisis in Georgia visited the region four times in 2013 in efforts to help defuse tension and explore conflict transformation opportunities. The EU also financially supported peace-building activities through the 'European Partnership for the Peaceful Settlement of the Conflict in Nagorno-Karabakh' project, bringing together stakeholders across the conflict divide.

Increased efforts as part of the Minsk Group process are needed to finalise agreement on the Madrid Principles as a basis for peace, in accordance with the commitments undertaken by the Presidents of Armenia and Azerbaijan. Parties should refrain from actions and statements that could heighten tension and undermine the peace process, and promote an environment conducive to progress in settling the conflict, while encouraging and supporting peace-building actions. Unimpeded access for EU representatives to Nagorno-Karabakh and the surrounding regions is needed to support conflict transformation activities, complementing the efforts of the Minsk Group.

The EU has supported activities that promote confidence and people-to-people contacts, expand economic and business links, promote cultural and educational activities, and facilitate the dissemination of balanced information in both Armenia and Azerbaijan.

There was no real progress on the normalisation of Armenia-Turkey relations, although a 'tête-à-tête' of the two Foreign Ministers took place in the margins of the Black Sea Economic Cooperation Organisation Foreign Ministers' meeting in Yerevan in December.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic outlook and developments²

Economic growth decelerated to 3.2% in 2013 from 7.3% in 2012. This was the effect of a significant decline in private consumption, the slowdown of the Russian economy and lower agricultural output.

² Figures are from the national statistical office, the central bank, the IMF or Commission Staff estimates, as indicated in the Statistical Annex. When other data sources are used these are then indicated.

Inflation accelerated from 2.5% in 2012 to around 5.8% in 2013 on the back of significant increases in food and energy prices. In August 2013, the Central Bank of Armenia increased its policy rate from 8% to 8.5% whereas in November 2013 it brought it back to 8% as inflationary pressures receded.

Fiscal consolidation advanced thanks to expenditures restraint and improved revenue collection. Despite the sharp slowdown of the economy the fiscal deficit narrowed to 1% of GDP in 2013 compared to 1.6% of GDP in 2012. Revenue mobilisation and tax administration reforms will be key elements for achieving further fiscal consolidation.

Armenia's prudent fiscal policy and low cost of funding due to concessional borrowings from official lenders created a favourable credit profile. This enabled the successful debut issue of a USD-denominated Eurobond of 700 million at 6% per annum due in 2020. The loan was used to advance the reimbursement of the USD 500 million loan provided by the Russian Federation in June 2009. The remaining USD 200 million has a three-tier use: (a) savings, (b) lending to commercial banks for on-lending to the private sector/ small and medium-sized enterprises (SMEs), and (c) deficit financing through reducing issuance of T-bills in 2014. This loan added only around two percentage points to the existing public debt (43.7% of GDP) as the bulk of it was used in October 2013 for the repayment of the mentioned USD 500 million Russian loan dating from 2009. A careful fiscal stance needs to be maintained given Armenia's graduation from concessional funding, which will increase financial diversification towards market-based funding.

The country's external position improved marginally in 2013, but remained fragile. The current account deficit improved to 8.5% of GDP in 2013 from 11.2% in 2012 as the weakening of economic activity constrained the demand for imports. Fiscal restraint, along with exchange rate flexibility and structural reforms, will be needed to mitigate pressures on the balance of payments and reduce the accumulation of external debt (currently 79% of GDP).

In September the Armenian government announced that it would join the Eurasian Customs Union instead of establishing a DCFTA with the EU. Although this decision led to Russia reducing energy prices for Armenia, in the long run it is expected to increase economic and financial exposure to Russia and reduce Armenia's resilience to economic shocks. It could negatively impact foreign direct investment (FDI) flows from EU countries; and may also incur costs relating to compensation due to WTO members as Armenia adopts Customs Union tariffs.

Social situation, employment and poverty reduction

The **unemployment** rate in 2013 was estimated at 10%, compared to 9.9% in 2012³, with higher unemployment in urban areas.

A new law raising salaries in both the private and public sectors, as well as the minimum wage, was adopted in the second half of 2013 as part of **poverty** reduction efforts. Public pensions will also increase, by about 15% on average. A pension system reform entered into force on 1 January 2014, introducing a compulsory accumulative system. The child poverty rate remains high, with children with

³ Data are related to the persons aged 15-75

disabilities being among the hardest hit. According to UN data, only 54.3% of extremely poor families and 4.1% of poor families regularly receive benefits for families with children, which is partly due to lack of awareness of existing support.

The shift towards integrated **social services** continued, involving the Ministry of Labour and Social Affairs and the Ministry of Territorial Administration; and such services were introduced in the Ararat region.

In an effort to implement the National Employment Strategy and the Action Plan 2013-2018, a new law on employment was adopted and entered into force on 1 January 2014.

In the field of agriculture and rural development, a strategy for sustainable agricultural development, that includes rural development elements, continued to be implemented. Substantial EU support will be provided from 2014, within the ENPARD⁴ initiative; this will include development of an integrated strategy for agricultural and rural development.

The Armenia Development Strategy replacing the non-operational **Sustainable Development** Programme 2008-2020 was launched, but the process remained at a draft stage.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU remained Armenia's main **trading** partner in 2012.⁵ The EU continued to be Armenia's biggest export and import market with respectively a 39.3% and 23.8% share in total Armenian exports and imports. EU exports to Armenia consisted mainly of machinery and mechanical appliances. EU imports from Armenia consisted mainly of base metals (copper, iron and steel) and mineral products (ores and slag).

Armenia continued to benefit from the special incentive arrangement for sustainable development and good governance under the EU scheme of generalised tariff preferences (GSP+). The total value of preferential imports from Armenia into the EU under the scheme has increased, from EUR 61 million in 2009 to EUR 90 million in 2012. In 2013, Armenia submitted an application to benefit from the GSP+ preferences under the new GSP Regulation as of January 2014. The examination of the request confirmed that Armenia meets the GSP+ eligibility criteria and the application was approved by the EU. Armenia remains therefore a GSP+ beneficiary under the revised GSP scheme.

In 2013, the EU and Armenia continued negotiations on a DCFTA. The final, concluding round of negotiations took place in July. In parallel to the DCFTA negotiations, Armenia pursued internal reforms in trade-related areas. However, on 3 September the President of Armenia officially announced that Armenia would join the

⁴ European Neighbourhood Policy for Agriculture and Rural Development

⁵ Data for 2013 was not available at the time of writing.

Russian-led Euroasian Customs Union which is incompatible with the provisions of the DCFTA.

In July, Armenia ratified the Protocol on the amendment to the International Convention on the Simplification and Harmonisation of **Customs** Procedures (Kyoto Convention). The State Revenue Committee (SRC) Customs Strategy for 2013-2014 and the Ministry of Finance Customs Strategy for 2013-2014 were approved in November. Before the President's announcement that Armenia intended to join the Customs Union, the SRC initiated a working group for aligning the new Customs Code with the EU Customs Code. An EU twinning project supported the strengthening of customs control procedures and enforcement in Armenia.

With regard to reforms in the area of **free movement of goods** and **technical regulations**, EU projects provided recommendations for approximation with EU horizontal and vertical legislation. A draft law adopting the EU procedures for conformity assessment and a draft law on toy safety were submitted to the government. The Ministry of Urban Development was preparing a draft law on construction and construction products. In January 2014, the government approved a draft law on market surveillance and a draft law on general safety of non-food products. A draft law on liability for defective products has yet to be adopted. Armenia developed and approved draft procedures in the form of checklists in three product sector areas, namely toy safety, cleaning detergents and tobacco, while 19 other checklists were being prepared.

In the **sanitary** and **phyto-sanitary** area, Armenia continued to implement its Food Safety Action Plan endorsed in 2011 and carried out awareness-raising activities. Armenia approved an inspection methodology based on consideration of the degree of risk from imported foodstuffs. The government endorsed procedures for banning importation of plants and plant products in the event of non-compliance with phyto-sanitary requirements and for conducting state control of imported foodstuffs. Armenia began to supply appropriate equipment for the food safety checkpoints at the border. The government requested support from the EU and the Food and Agriculture Organization (FAO) for upgrading the food safety laboratories.

Armenia advanced to 37th place⁶ (out of 189 economies) in the ease of doing business ranking in the World Bank's 'Doing Business 2014' annual report. Armenia made progress with regard to starting a business and paying taxes. Yet a number of areas affecting the **business climate** in Armenia still require further improvement, such as enforcing contracts, paying taxes, getting electricity and trading across borders. Armenia ranks 79th (out of 148) in the World Economic Forum 'Global Competitiveness Report 2013-2014'. Armenia was ranked very low in indicators such as intensity of local competition, effectiveness of anti-monopoly policy, burden of customs procedures, and judicial independence. Other major problematic factors for doing business were corruption, access to financing, inefficient government bureaucracy, tax regulations and rates. Improvements in these areas could help stimulate growth in the private sector, especially for SMEs.

⁶ Comparison is made with the 'Doing Business 2013' ranking, which was adjusted for changes in methodology and any revision of data due to corrections. For more information, see <http://www.doingbusiness.org>

In the area of **company law**, an assessment conducted by the World Bank considered International Financial Reporting Standards (IFRS) to be too complicated for small and medium enterprises (SMEs). Armenia started to look into simplification of the reporting requirements for SMEs. The 2012 consolidated IFRS guideline (Red Book) was translated into Armenian. A programme on strengthening auditing and reporting in the countries of the Eastern Partnership (STAREP) was launched in October.

As a follow-up to the concept paper on regulating economic competition in **financial services** adopted in 2012, Armenia drafted a regulation on anti-competitive agreements in the financial sector, as well as a regulation on concentrations of financial organisations. In May the Central Bank of Armenia, with the support of the Financial Stability Institute and the Group of Banking Supervisors from Central and Eastern Europe (BSCEE Group), held a three-day seminar to discuss the Basel III essential principles. Some Basel III norms were being considered for implementation in 2014.

No substantial regulatory changes could be noted in the areas of **establishment, movement of capital and current payments**.

Other key areas

Armenia replaced individual income **tax** and mandatory social security payments with the Unified Income Tax. To ensure implementation of the Action Plan and improvement of the business climate, Armenia is encouraged to implement further reforms in tax administration, as well as in tax policy and legislation.

No progress was made in the adoption of **State Aid** Control legislation. Amendments to a law on protection of economic **competition** were forwarded to the government.

With EU support, Armenia launched an **Intellectual Property Rights (IPR)** Enforcement Information Centre and published a collection of statistical information on IPR infringements for 2011 and 2012 on the centre's website. The government prepared proposals for amendments to relevant laws on IPR enforcement. A copyright law was being revised by the government. In September Armenia ratified the Patent Law Treaty and Trademark Law Treaty. Ratification of the International Convention for the Protection of New Varieties of Plants is still pending. To ensure implementation of the Action Plan, Armenia needs to finalise the legal framework for enforcement and further build the capacity of the IPR Units in customs and police services, as well as implement the geographical indications system.

Together with the anti-corruption area, reforms in the area of **procurement** are slow. The 2012 report of the Chamber of Control, issued in March, indicated systemic problems in the procurement system. There is a widespread lack of efficiency and effectiveness in the procurement systems; moreover, the introduction of an e-procurement system has not yet been accomplished. In order to address the deficiencies, Armenia is developing a new initiative for e-procurement system reform within a new time frame of 2013-2015.

In the area of **statistics**, Armenia conducted a pilot Agriculture Census in November 2013 and will conduct a full census in 2014. Armenia published the results of the 2011 population census and developed a new, more user-friendly dissemination database. Quality declarations for all 134 statistical products were compiled and

published. The revision of the statistical law was launched. To make further progress in implementing the Action Plan, Armenia is encouraged to continue with reforms in information dissemination, demographics, labour market, poverty, environment and other statistical fields.

The public financial management systems were further reformed in 2013. Measures taken included a new income tax model linked to the ongoing pension reforms, development of tax-related indicators, adoption of a new Law on Budget Systems and Training of Internal Audit Staff. A Public Expenditure and Financial Accountability (PEFA) Self-Assessment was carried out. An EU twinning project for reforms in **public internal financial control** was prepared. The Public Debt Management Department of the Ministry of Finance and Economy benefited from EU support to strengthen the newly created functional structure. Limited developments took place regarding the implementation of the Action Plan for programme-based budgeting reforms due to delays in approval of the new Law on Budget Systems. Implementation of the recommendations on the enhancement of fiduciary control of non-commercial organisations was also delayed. Reforms in the field of **external audit** have shown no substantial progress despite support from the EU and other donors. Further accountability and transparency progress requires involvement of non-state actors in the budgeting process.

The report on the implementation of the Small Business Act for Europe (SBA), which was published in October 2012, concluded that despite some improvements, the **small and medium-sized enterprise** (SME) sector still needed a strong and viable development strategy and effective policy implementation mechanisms. Key areas to be given priority are SME financing, innovation and export promotion. Progress over time (covering the period from 2012 to 2015) will be reviewed in the second round of the SBA Assessment. Armenia also committed itself to take part in the follow-up project focusing on implementation of recommendations in certain sectors in order to enhance their competitiveness.

The EU continued to provide considerable support for trade-related reforms through budget support, high-level advice, technical assistance, TAIEX, and twinning. However, following Armenia's announcement that it was to join the Eurasian Customs Union, the overall portfolio of EU trade-related assistance was reduced.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

The first construction works for the modernisation of the Bagratashen, Bavra and Gogavan border crossing points between Armenia and Georgia were officially inaugurated in September. Substantial EU support was allocated to this major integrated **border management** project. National identity cards became compulsory in January 2014.

Implementation of the EU-Armenia **Mobility Partnership** and the 2012-2016 National Action Plan on **Migration** continued. This led to the introduction of a 'one-stop shop' for returning Armenian migrants, providing for a clear single entry point with a referral mechanism to existing reintegration assistance, and the launch of a skills-based labour platform targeting both job-seekers interested in becoming circular labour migrants and EU employers wishing to recruit from abroad. The EU provided

support for migration management and reintegration through twinning and other projects.

The EU-Armenia **Readmission Agreement** was signed in April. The Agreement was ratified by the Armenian National Assembly in November, together with the already signed **Visa Facilitation Agreement**. Both agreements entered into force on 1 January 2014.

In late 2013, the State Migration Service, with support from their counterparts in Romania, drew up amendments to the **Law on Refugees and Asylum** in the form of draft Standard Operating Procedures on the temporary reception centre for asylum-seekers. The absence of free legal aid for asylum-seekers remains an issue of concern. Meanwhile, the influx of Syrian refugees increased. Out of 327 persons seeking asylum between January and December 2013, 285 were from Syria. Syrian asylum-seekers benefit from a simplified procedure, but increased transparency and accountability in the procedure is necessary. The overall number of persons coming to Armenia from Syria since the beginning of the conflict is estimated at more than 11 000, with most of them applying for Armenian citizenship or a residence permit rather than for asylum.

Progress was made in addressing **human trafficking**. The government approved the National 2013-2015 Programme on combating trafficking, aimed at improving identification and support mechanisms for victims of trafficking through legislative reforms, as well as financial and capacity-building efforts.

Activities in the **cybercrime** area continued with EU support.

Regarding the fight against **drugs**, work started on a new drugs strategy and action plan covering the period from 2013 onwards, but documents have not yet been approved. Following Armenia's request in May to sign a Memorandum of Understanding with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA), necessary steps are currently ongoing. Armenia appointed a national correspondent to the EMCDDA.

Concerns persist on the draft **data protection** law; the designation in the draft of police and the security service as supervisory bodies is not in line with EU standards, notably with the independence requirement.

As regards **judicial cooperation** in civil matters, the 1965 Hague Convention on Service Abroad of Judicial and Extrajudicial Documents in Civil and Commercial Matters came into force in February.

6. TRANSPORT, ENERGY, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT

The government adopted a concept for liberalisation of the country's air **transport** sector in June, following the bankruptcy of the national carrier. Armenia expressed an intention to launch negotiations on a Common Aviation Area Agreement between the EU and Armenia. On 14 May, the government signed a working agreement with the European Aviation Safety Agency covering cooperation in all aspects of the regulation of civil aviation safety.

The construction of the North-South road corridor, supported by the EU through the Neighbourhood Investment Facility, progressed. Armenia is yet to join the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR). In May, Armenia joined the Convention on Transit Trade of Land-locked States and the Convention and Statute on Freedom of Transit.

The implementation of the 2010 Action Plan on **Energy** Saving and the 2011 Roadmap on Energy Efficiency continued, with Armenia aiming for 30% of electricity generation to come from renewable sources by 2025. As the country considered that the costs of solar technologies were still too high, it focused on hydro- and wind-based projects. Armenia participated in the EU-funded INOGATE programme, which provided the country with technical assistance concerning electricity and gas standards and tariffs, as well as the development of sustainable energy sources. EU-supported stress tests were carried out on the nuclear power plant at Medzamor, and their results were presented in October; they will be peer-reviewed. No steps were taken towards energy market liberalisation.

New EU-funded **climate change** regional projects were launched in 2013, including Clima East and Climate Forum East.

With regard to governance of the **environment**, no progress was made. There were no significant developments concerning legislation to prevent deterioration of the environment. Concerning the use of natural resources, the main change was that administrative responsibility for forestry was transferred to the Ministry of Agriculture. Armenia participated in the Eastern European, Caucasus and Central Asia component of the EU Water Initiative and in all regional projects on transboundary water management.

Capacity building in the area of disaster risk reduction and **civil protection** continued through EU support targeting the National Platform, relevant ministries and vulnerable groups, including children with disabilities.

As regards **information society**, the second plenary meeting of the EaP Electronic Communications Regulators' Network was held in Yerevan in October, hosted by the Public Services Regulatory Commission (PSRC) of Armenia. In September, the Ministry of Transport and Communication approved the programme and implementing schedule for the development of e-commerce in Armenia. An e-police system for traffic fines and driving licences was implemented, as well as an e-civil component for all civil status registrations and online identification by ID cards.

Regarding **audiovisual policy**, Armenia's broadcasting legislation does not meet standards and recommendations of the Council of Europe and the OSCE, as it does not ensure pluralism in the broadcasting media.

Research and innovation were among the main priorities during Armenia's chairmanship of the Black Sea Economic Cooperation Organisation from July to December. Armenia increased its participation in the Seventh Framework Programme (FP7) to 45 projects covered by a total EU contribution of EUR 3.22 million. Three new FP7 projects (R2I-Research to Innovation) involving Armenian stakeholders were launched, supported by EU funding of around EUR 3 million and aiming at fostering research-industry partnerships, supporting Armenian capacities in the

innovation domain and facilitating the commercial exploitation of research results. A new FP7 regional project, the INCONET EaP, involving the National Academy of Sciences, was launched in September for three years with a view to preparing the transition to Horizon 2020 and promoting cooperation opportunities which this new programme will bring. Armenia officially confirmed its interest in association to Horizon 2020.

7. PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH

The state programme on education development 2011-2015 was adopted in June 2011 and is currently the reference point in terms of strategic goals, objectives and indicators.

Review of the Law on Education was launched; the government intends to extend compulsory education as of 2014 from 9 to 12 years, in order to address the problem of an average of 4000 students who fail to complete secondary education on an annual basis.

The ‘Supplementary and Continuing Education Strategy 2013-2017’ was approved by the Ministry of Education and Science in December 2012 upon consultation with other public institutions, NGOs and social partners’ organisations. The strategy includes proposals for amendment of the national legislation concerning the Supplementary and Continuing Education Strategy, including new concepts and procedures for validation of non-formal and informal learning.

Positive developments took place in implementing **higher education** reforms. One of the main achievements was the development of the National Qualifications Framework. Armenia is hosting the Bologna and BFUG (Bologna Follow-Up Group) Secretariats from 2012 until 2015 and organised the education ministerial session of the Informal Eastern Partnership Dialogue in September. It will also host the 2015 Ministerial Conference in this context. Steps were taken towards the development of mechanisms for financial support to students and an improved system of higher education funding.

Armenia was more actively involved in the **Tempus** programme, with a total of 40 ongoing projects. 18 projects, out of which six coordinated by an Armenian institution, were selected in 2013. Students and staff from Armenia received 196 scholarships to study at a European higher education institution under nine new **Erasmus Mundus** partnerships. In addition, 20 students were awarded scholarships to take part in Erasmus Mundus joint Masters courses of excellence. These included 20 additional scholarships awarded under a special window for EaP countries. Since 2007, 11 institutions and 21 individual researchers have benefited from **Marie Curie Actions** supporting researchers’ training, mobility and career development.

The reform of **vocational education and training** (VET) continued in line with the objectives of the ‘Reforms Programme and Action Plan for 2012-2015’ with EU assistance through a major sector support programme. Significant achievements and positive impact were registered, especially at the institutional capacity-building level, as well as in establishing links between demand and supply for VET training and employment at the local/regional level. Additional EU support will be provided for inclusion of youth with special needs and provision of equal access to quality VET education, as well as expansion of the reforms to the rest of the system.

Armenia officially joined the ‘**eTwinning plus**’ action for schools supporting school collaboration through the use of information and communication technologies. 41 schools and 208 teachers from Armenia are registered and 33 schools are involved in projects so far.

Armenian **youth** and youth organisations continued to participate in the **Youth in Action** programme. For 2013, additional funds were provided to the programme, in the form of an ‘Eastern Partnership Youth Window’. In 2013, 425 projects involving 1212 young citizens of Armenia were selected.

Under the EaP **Culture** programme, 15 regional projects are being implemented in Armenia to strengthen the capacities and role of the cultural sector through the development of regional cooperation. A workshop involving stakeholders from the cultural sector took place in the context of the consultation process for the Preparatory Action on Culture in EU External Relations. In August, Armenia hosted the European launch of the European Heritage Days (a joint action of the European Commission and the Council of Europe) in Yerevan, in the context of the Armenian Presidency of the Council of Ministers of the Council of Europe.

Armenia was actively involved in **cross-border cooperation** through the Black Sea Economic Cooperation Organisation and held the chairmanship during the second half of 2013, with a meeting of Ministers held in Yerevan in December. In addition, several cross-border cooperation projects relevant to Armenia were started through the Black Sea Basin Joint Operational Programme in the fields of tourism, environment and culture.

The EU Delegation organised bi-monthly meetings for **civil society cooperation** and it maintains a web interface for civil society consultations.

Concerning **health** sector reform, a concept paper on ‘Healthcare Policy’ was drafted and several decrees on epidemiological control and analysis were adopted. A campaign on HIV-AIDS testing and prevention was carried out with EU support. Policy-makers from Armenia participated in a multi-country workshop on the EU *acquis* on prevention and control of communicable diseases.