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THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX II

to the Commission Implementing Decision amending the Implementing Decision C(2023)9021 final as regards the financing of the annual action plan in favour of the Republic of Armenia for 2023

Action Document for Reform and CEPA implementation Facility

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plan/measure in the sense of Article 23 (2) of NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

1. Title OPSYS Basic Act	Reform and CEPA implementation facility Annual action plan in favour of the Republic of Armenia for 2023 OPSYS business reference: NDICI-GEO-NEAR/2023/ACT-62369 ABAC Commitment level 1 number: JAD.1350103 and JAD.1543072 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe).
2. Economic and Investment Plan (EIP)	Yes
EIP Flagship	Yes Flagship 1: Supporting a sustainable, innovative and competitive economy Flagship 4: Building resilience in the southern regions
3. Team Europe Initiative	No
4. Beneficiary of the action	The action shall be carried out in the Republic of Armenia.
5. Programming document	Multiannual Indicative Programme (2021-2027) for Armenia ¹
6. Link with relevant MIP(s)	Priority Area 1: Resilient, sustainable and integrated economy Priority Area 2: Accountable institutions, rule of law and security Priority Area 3: Environmental and climate resilience

¹ Commission implementing decision adopting a multiannual indicative programme for Armenia for the period 2021-2027 C(2021)9435 on 16.12.2021

objectives/expected results	Priority Area 5: Resilient, gender-equal, fair and inclusive society			
PRIORITY AREAS AND SECTOR INFORMATION				
7. Priority Area(s), sectors	Priority Area 1: Resilient, sustainable and integrated economy 250 – Business and other services 330 – Trade policies and regulations Priority Area 2: Accountable institutions, rule of law and security 150 - Government & Civil Society Priority Area 3: Environmental and climate resilience 410- General environmental protection Priority Area 5: Resilient, gender-equal, fair and inclusive society 120 - Health			
8. Sustainable Development Goals (SDGs)	<ul style="list-style-type: none"> • Main SDG: SDG 1 - No poverty Other significant SDGs and where appropriate, targets: <ul style="list-style-type: none"> • SDG 3 - Good Health and Well-Being • SDG 5 - Gender Equality • SDG 8 - Decent work and economic growth • SDG 9 - Industry, innovation and infrastructure • SDG 10 - Reduced Inequalities • SDG 11 - Sustainable cities and communities • SDG 12 - Responsible consumption and production • SDG 13 - Climate Action • SDG 16 - Peace, Justice and Strong Institutions 			
9. DAC code(s)	12110 Health policy and administrative management 15110 Public Sector Policy and administrative management			
10. Main Delivery Channel	12000 Recipient Government			
11. Targets	<input checked="" type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
12. Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. Internal markers and Tags	Policy objectives	Not targeted	Significant objective	Principal objective
	EIP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	EIP Flagship	YES <input checked="" type="checkbox"/>		NO <input type="checkbox"/>
	Tags	YES		NO
	transport	<input type="checkbox"/>		<input checked="" type="checkbox"/>
	energy	<input checked="" type="checkbox"/>		<input type="checkbox"/>
	environment, climate resilience	<input checked="" type="checkbox"/>		<input type="checkbox"/>
	digital	<input type="checkbox"/>		<input checked="" type="checkbox"/>
	economic development (incl. private sector, trade and macroeconomic support)	<input checked="" type="checkbox"/>		<input type="checkbox"/>
	human development (incl. human capital and youth)	<input checked="" type="checkbox"/>		<input type="checkbox"/>
	health resilience	<input checked="" type="checkbox"/>		<input type="checkbox"/>
	migration and mobility	<input type="checkbox"/>		<input checked="" type="checkbox"/>
	agriculture, food security and rural development	<input type="checkbox"/>		<input checked="" type="checkbox"/>
	rule of law, governance and public administration reform	<input checked="" type="checkbox"/>		<input type="checkbox"/>
	other	<input checked="" type="checkbox"/>		<input type="checkbox"/>
	Digitalisation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Tags	YES		NO
	digital connectivity	<input type="checkbox"/>		<input checked="" type="checkbox"/>
	digital governance	<input type="checkbox"/>		<input checked="" type="checkbox"/>
	digital entrepreneurship	<input type="checkbox"/>		<input checked="" type="checkbox"/>

	digital skills/literacy	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	digital services	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Tags	YES	NO
	digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	transport	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	health	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	education and research	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Migration	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Reduction of Inequalities	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>

BUDGET INFORMATION

14. Amounts concerned	Budget line(s) (article, item): 14.020111 Eastern Neighbourhood Total estimated cost: EUR 23 000 000 Total amount of EU budget contribution: EUR 23 000 000 The contribution is for an amount of EUR 3 000 000 from the general budget of the European Union for 2023 and for EUR 20 000 000 for 2024.
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MANAGEMENT AND IMPLEMENTATION

15. Implementation modalities (management mode and delivery methods)	Direct management through: - Twinning grants - Procurement Indirect management with the entity(ies) to be selected in accordance with the criteria set out in section 4.3.2
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1.2. Summary of the Action

The action aims to advance the implementation of the EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) while supporting the Government of Armenia in the wider reform process. Following the EU-Armenia Partnership Council on 13 February 2024 and the European Union (EU) announcement of a Resilience and Growth Plan for Armenia during the EU-Armenia high level meeting on 5 April, this action will provide support to the socio-economic reform agenda by improving the quality of healthcare system and overall business environment contributing to the socio-economic integration of the displaced Karabakh Armenians. In addition, the action will focus on strengthening sectoral cooperation in particular regarding trade diversification, legislative alignment to energy and climate change, aviation safety.

The action serves as a flexible instrument and a rapid response tool for the Commission providing targeted sectoral, horizontal and cross-sector support while responding to the emerging, unforeseen and fast evolving needs of Armenia. The action is in line with and contributes to the EU priorities in Armenia, in particular the EU-Armenia CEPA², the Multi-annual Indicative programme for Armenia for 2021-2027³, the Resilience and Growth Plan announced on 5 April 2024, as well as the Eastern Partnership agenda of recovery, resilience,

² [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:22018A0126\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:22018A0126(01))

³ https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-01/C_2021_9435_F1_ANNEX_EN_V2_P1_1621110.PDF

and reform⁴, and the country level implementation plan for the Gender Action Plan III, adopted by the Commission⁵. The action also builds on the Economic and Investment Plan as an important tool, both for the Government of Armenia as well as the EU, in driving key reforms and contributing to reducing economic, energy and connectivity dependencies and supporting socio-economic development. Due to the facility's flexible nature, it is not possible to list concrete SDGs the facility will target as these will be determined at the projects level.

The current crisis context in Armenia following the mass influx of over 100 000 Karabakh Armenians in September 2023 has added enormous pressure to the country's already fragile social-economic infrastructures, severely affected by the shocks of recent years. The COVID-19 pandemic, the 44-day war of September 2020, subsequent border escalations and the political crisis in 2021 have had significant socio-economic impact and slowed down the pace of reforms. Thus, it is necessary to address structural weaknesses and institutional capacity gaps of the government, particularly within the social, economic, and healthcare systems, as well as supporting the Government in accelerating the reform process in strategic sectors, such as trade, energy, climate change and aviation safety.

The expected socio-economic impact caused by the inclusion of the displaced population in Armenia's social protection structures will need to be mitigated by ongoing and future reform processes. A **strong shock resilient social protection system** in Armenia becomes a greater urgency in view of the enormous demand created by the arrival of over 100 000 Karabakh Armenians who represent around 3% of the population of Armenia and will thus require support to the on-going reforms on social assistance and employment. The **healthcare system** is also facing greater pressure to respond to demands of free of charge access to primary healthcare, including sexual and reproductive health care services and psychosocial support, as well expansion and enhancement of healthcare institutions across Armenia. This created an urgent need to support the finalisation of the healthcare reform and its roll out.

The **capacity of SMEs** to absorb the available human capital will heavily depend on the capacity of the Government to design and implement policies that attract foreign direct investment and ensure a **competitive economy**, as well as its diversification and innovation. Both reforms are fundamental and large-scale and could benefit from sharing EU best practices and support, including through mechanisms such as Twinning. Furthermore, Armenia has been facing multiple environmental challenges, including +1.5°C increase of temperature since 1990s, developing effective **water management** systems as well as policies for **air quality** maintenance and reduction and restrictions of emissions.

At the same time, in view of the current volatile situation in Armenia and rapidly evolving concerns, the nature of the reforms process and investment needs are difficult to predict. Armenia finds itself in an uncertain geopolitical and economic context. Despite substantial economic growth in recent years, the country still faces insufficient foreign direct investment, limited human capital, and connectivity constraints both within Armenia and with other countries. In addition to being a landlocked country, the closed borders with Azerbaijan and Türkiye severely limit Armenia's economic diversification possibilities and geopolitical room for manoeuvre. Better connectivity is a key factor that could contribute to the economic and trade diversification of the country, as outlined by the President of the European Commission on 5 April 2024. In this context, gradual progress with Armenia's alignment with the Union *acquis* in the energy sector over the 2024-2029 period, in line with the schedule of deliverables of the CEPA annex, will steadily improve Armenia's security of supply for gas and electricity, and help overcome inherited dependencies and geographical challenges. Continued efforts are also needed towards addressing the **aviation safety** gaps confirmed following the on-site safety assessment visit of 2020 under the auspices of the EU's Air Safety List activities, conducted by experts from the European Commission, EASA and the EU Member States. In addition, Armenia almost completely depends on Russia for grain supplies, with very few options for

⁴ https://www.eeas.europa.eu/sites/default/files/1_en_act_part1_v6.pdf

⁵ https://www.eeas.europa.eu/sites/default/files/documents/Country%20Gender%20Profile_%20ARMENIA_ENG.pdf

alternative sources. This gives Russia substantial economic and political leverage, in addition to being a formal security guarantor of Armenia, contributing to further uncertainty.

In spite of these challenging circumstances Armenia has gone through major political changes which led to a reinforced engagement in a number of reforms areas, with a government committed to democracy building, considering CEPA as a blueprint for reforms as well as the modernisation of the country. The socio-economic recovery and overall resilience building is one of the most important priorities for the Government of Armenia. This is also one of the main objectives of the Economic and Investment Plan and its flagships in the country. This action aims to improve the Government's capacity to develop close complementarity between the ongoing reform processes and future investments in key sectors in the country. Given the current context, it is important to stress the significance of the **2026 election**. Increased support for preparation efforts is essential, emphasizing transparency and mitigating potential political turmoil risks.

Therefore, this action will provide the EU with a flexible multi-purpose toolkit in order to respond positively and swiftly to various ad-hoc requests from the Government as well as other organisations when implementing reform-oriented actions in Armenia, in line with the Resilience and Growth Plan. The action will target, among others, the socio-economic recovery of Armenia, in view of supporting the inclusion of the displaced population in Armenia, as well as the institutional development of the country. Taking into account the unfolding challenges in Armenia expected in the period ahead, the action aims to ensure sustainability of reforms, provide certainty of EU funding and support, in particular in relation to the health and social protection sectors.

1.3. Beneficiary of the action

The Action shall be carried out in the Republic of Armenia, which is included in the list of Official Development Assistance (ODA) recipients.

2. RATIONALE

2.1. Context

Following Azerbaijan's military operation in September 2023 as the latest escalation in the three-decade long conflict, almost the entire Armenian population of Nagorno-Karabakh – over 100 000 people – have fled to Armenia. A significant proportion of this population are vulnerable groups that require special assistance, including estimated 12 000 elderly, 30 000 children, 9 000 people with disabilities and people with chronic health conditions. According to UNFPA, approximately half of the displaced people are reported to be women and girls⁶. The military offensive was followed by a ceasefire agreement and a signature of a decree dissolving all de facto governance bodies of the so-called Republic of Nagorno Karabakh as of 1 January 2024. Thus, the majority of displaced Karabakh Armenians will likely stay in Armenia indefinitely and the Government now faces the challenge to integrate them into Armenian social support structures and ensuring the socio-economic recovery of host communities.

In response to the influx of people, the Government of Armenia has already put in place cash support schemes, with a cost of around EUR 125 million over the next six months. The Government estimates the overall cost of integrating the displaced Karabakh Armenians in Armenia to be around EUR 1.5 billion. Contributing to these efforts will require increased support and close coordination among donors, including the EU and its Member States. This is already happening on the ground among donors and with civil society, and through the leadership of Deputy Prime Minister Tigran Khachatryan. However, coordination within the government could be further improved.

⁶ UNFPA situation report 2, 16 October 2023, [ARM CO SitRep#2 Oct 2023 Refugee Response \(unfpa.org\)](https://www.unfpa.org/sites/default/files/pub-pdf/ARM_CO_SitRep#2_Oct_2023_Refugee_Response)

Armenia is a landlocked country, with a population estimated at 2.963 million⁷, bounded to the north and east by Georgia and Azerbaijan, and to the southeast and west by Iran and Türkiye, respectively. Borders with Azerbaijan and Türkiye are closed, significantly limiting Armenia's trade diversification opportunities as well as energy and transport connectivity. Armenia is an upper middle-income country with a gross domestic product (GDP) per capita of USD 6,587 in 2022 and 8,153 in 2023, based on the criteria by the Development Assistance Committee of the Organisation for Economic Co-Operation and Development (OECD/DAC). Despite Armenia's economic growth of 12.6% in 2022 and 8.7% in 2023, its weak connectivity and constant tensions with Azerbaijan undermine the prospect of a sustainable growth.

Around 64% of the population live in urban areas and 36% live in rural areas. According to the National Statistics Service⁸, in 2020, 57% of the urban population lived in the capital city of Yerevan. As of 1 January 2021⁹, 47.2% of the population of the country were men and 52.8% were women. The poverty rate in 2019 (described as income equal or less than USD 5.5/day in 2011 purchasing power parity terms) amounted to 44% and gradually declined to 23.5% in 2022¹⁰. The proportion of women suffering from poverty is higher than that of men (54.7% and 45.3% respectively). The influx of Karabakh-Armenians constitutes an increase of almost 3% of the population.

On the margins of the European Political Community Summit in Granada on 5 October 2023, the President of the European Commission Ursula von der Leyen outlined further support measures to Armenia, both emergency and long-term, including budget support. She also announced the mobilisation of sectoral technical assistance, increased investments through the EU's Economic and Investment Plan, as well as support to Armenia's participation in regional projects such as the Black Sea electricity cable. Moreover, the European Council of 26-27 October 2023 invited the High Representative and the Commission to present options on how to strengthen EU-Armenia relations 'in all dimensions'. Moreover, at the high-level meeting with EU, US and Armenia on 5 April 2024, Ms. von der Leyen announced a Resilience and Growth Plan for Armenia, which would mobilise EUR 270 million in grants for the period of 2024-2027. The Plan will underpin the Partnership Agenda which the parties agreed to negotiate at the EU-Armenia Partnership Council on 13 February 2024.

The action will contribute to the implementation of the Comprehensive and Enhanced Partnership Agreement signed between Armenia and the EU in 2017 and entered into full force since 2021. The Agreement plays an important role in the EU-Armenia relations, in particular through legislative approximation to EU norms in many sectors. It also provides a framework for the EU and Armenia to work together on a wide range of areas, including social protection, health, and good governance. The Agreement remains a blueprint for the country's strategic reforms.

The action will contribute to the implementation of the Economic and Investment Plan for the Eastern Partnership (EaP) and its flagships for Armenia – a tool for advancing the recovery, resilience and reform agenda and enhancing CEPA implementation. The plan mobilises public and private investments and enables the EU to work together with other international financial institutions to design and implement projects in priority areas such as economic growth, connectivity, green and digital transition, socio-economic resilience and education. The Economic and Investment Plan, which includes key flagship initiatives identified jointly with the Armenian authorities, is a critical element to support the broader socio-economic recovery and resilience. Its main initiatives target SME development, green growth, connectivity, socio-economic development of the southern regions, and digital transformation, in line with the CEPA objectives. Overall, Armenia has been performing well under the Economic and Investment Plan in regional comparison, with a significant number of investments already mobilised in sectors ranging from SME support to education.

⁷ IMF: <https://www.imf.org/en/Countries/ARM>

⁸ National Statistical Committee of the Republic of Armenia: The Demographic Handbook of Armenia https://www.armstat.am/file/article/demog_2021_2_.pdf

⁹ ibid

¹⁰ IMF: <https://www.imf.org/en/Countries/ARM>

The action is consistent with the country's Government Programme 2021-2026 approved in November 2021. The programme reflects on the country's commitments under CEPA and consists of six sections: security and foreign policy, economy, development of infrastructures and human capital, law and justice, and institutional development.

The action will contribute to the implementation of the Resilience and Growth Plan, announced on 5 April 2024. The plan will mobilise EUR 270 million in grants for the period 2024-2027 to support Armenia's resilience. It will support the socio-economic agenda and closer sectoral cooperation with the European Union. The Plan will be built on three main pillars: strengthening Armenia's socio-economic resilience, strengthening EU-Armenia sectoral cooperation and stepping up investments under the Economic and Investment Plan.

In supporting CEPA implementation in the energy sector, in line with Armenia's 2040 energy strategy, the action will also respond to Armenia's subscription to the EU-led Global Pledge to triple renewable energy capacity and double energy efficiency gains worldwide by 2030, adopted at the UN Climate Change Conference in Dubai (COP28, December 2023).

The action will build on the achievements, learnings and innovation of the following EU funded projects:

- **Support to CEPA monitoring, implementation and communication (2023-2027)**, EUR 7 million bilateral technical assistance project with the aim to support the reform process in Armenia, CEPA implementation, deployment of the High-Level Advisor, strategic Government of Armenia communication, general communication of the EU Delegation and support to CSOs in Armenia in monitoring CEPA.
- **Building a resilient social protection system in Armenia (2022-2026)**, EUR 6.5 million contribution agreement between the EU and UN agencies (UNICEF, UNDP and WFP) contributing to inclusive, resilient and sustainable socio-economic recovery and growth in the post COVID-19 pandemic and post-conflict period, in line with the EU-Armenia CEPA provisions.
- **Support for Improvement in Governance and Management (SIGMA) (2022-2024)**, a joint initiative of the OECD and the European Union with the objective to strengthen the foundations for improved public governance, support socio-economic development through building the capacities of the public sector, enhance horizontal governance and improve the design and implementation of public administration reforms, including proper prioritisation, sequencing and budgeting.
- **Support to Economic Governance, Business Environment and Justice Functional Review (2021-2024)**, an EUR 2.5 million trust fund between the EU and the World Bank, which supports the improvement of economic governance strengthening the Government's capacity to support public-private partnerships and its public procurement framework, as well as reinforcing fiscal sustainability; support the Government to identify policies aimed at (i) strengthening business environment; (ii) supporting small and medium enterprises ; (iii) increasing firm productivity; and assist the Ministry of Justice in drafting comprehensive assessment of the judiciary sector.
- **The Team Europe Initiative for Resilient Syunik (2022-2027)**, a joint effort of the EU, the European Investment Bank (EIB), and 10 EU Member States Austria, Czechia, Estonia, Finland, France, Germany, Lithuania, Poland, the Netherlands and Sweden, with Switzerland as an external partner. It is part of the EIP, namely Flagship initiative 'Building resilience in the southern regions of Armenia. The main objective is to contribute to Syunik region's sustainable socio-economic and institutional development. This initiative now serves as a usual platform for the EU's support. Furthermore, 14 Member States and Participating States of the Union Civil Protection Mechanism (UCPM) have offered in-kind assistance to Armenia including shelter, medical supplies, medicines and food items, as well as medical support.
- **EU4Gender Equality Reform Helpdesk (2021-2024)**, EUR 2 million, which aims to increase the knowledge base and use of gender analysis in decision-making and reform by the government, civil society and EU delegation to deliver effective and equal outcomes for all, both women and men, in all their diversity.

- **EU4Sevan (2020-2024)**, EUR 5 million agreement between the EU, GIZ and UNDP, with the objective to enhance the environmental protection of Lake Sevan by improving monitoring and management capacities of relevant state institutions, as well as the overall Lake Sevan ecosystem governance.
- **EU4Environment (2019-2024)**, implemented by five international organisations: OECD, UNEP, UNECE, UNIDO, and the World Bank. The project aims at supporting environment-related action, demonstrating and unlocking opportunities for greener growth, and setting mechanisms to better manage environmental risks and impacts.
- **EU4Energy**, currently in its second phase, implemented by the Council of European Energy Regulators, the Energy Community Secretariat, and the International Energy Agency, that provides assistance in energy data management, evidence-based energy policy design, legislative and regulatory framework development, and energy infrastructure investment in Eastern Partnership countries.
- **2024 SME Policy Index for Armenia** developed by the Organisation for Economic Cooperation and Development (OECD), and **Investment Climate Action reviews**, developed by the European Bank for Reconstruction and Development (EBRD), both in the context of the EU4Business initiative.
- **EU support on strengthening safety oversight of Civil Aviation Committee in Armenia (2021-2023)**, which provided technical assistance in the domains of continued air-worthiness and flight operations, as well as the regional EU funded project on strengthening interconnectivity through implementation of Common Aviation Area Agreements and improved civil aviation safety.
- **Building sustainable apparel and agribusiness value chains in Armenia (2023-2026)**, which will focus on competitiveness and sustainable export growth of SMEs in the agribusiness and apparel sector and improving the capacities of business support organizations (BSOs) to provide quality services to SMEs.

2.2. Problem Analysis

Armenia has experienced multiple internal and external shocks over the past four years: the COVID-19 pandemic; the conflict in and around Nagorno-Karabakh in 2020 and continued tensions since (including the military escalation in September 2022); post-conflict domestic political turmoil, including snap elections in 2021; and risks related to the impact of Russia's war of aggression against Ukraine.

Most recently, following the military intervention by Azerbaijan on 19-20 September 2023, and the massive exodus of displaced Karabakh Armenians to Armenia, the EU will focus on supporting the Government of Armenia to cater to the immediate needs and the socio-economic integration of the displaced population. All these events had a significant impact on the socio-economic resilience of the country and slowed down the pace of reforms. These also unveiled the country's low resilience to external shocks, the weakness or lack of institutional capacity, but also setbacks in EU assistance to react swiftly enough to unforeseen and fast evolving needs of Armenia. Given the volatile context and the precise needs which are difficult to predict, there is a need of more flexibility in EU assistance in order to support reforms in line with the EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA). In addition, the Economic and Investment Plan remains an important investment tool for both the Armenian Government and the EU in driving key reforms in the country and contributing to reducing economic, energy and connectivity dependencies of Armenia while strengthening its socio-economic resilience. A flexible EU rapid response tool support would help filling in the gaps of the emerging, unforeseen and fast evolving needs of Armenia arising within the current context as described in previous sections.

Institutional capacity

The EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) is referenced as a strategic blueprint for key reforms in Armenia in the Government Programme 2021-2026. The latest EU-Armenia Partnership Implementation Report of 18 May 2022 acknowledges the challenges Armenia has faced throughout 2020 and 2021 and their impact on the reform process. Although the report recognises progress in

the justice and constitutional reforms, vocational education and training, research and innovation, digitalisation, it also underlines the need for increased efforts in the institutional development in order to deliver on the ambitious reform agenda in line with CEPA. The CEPA implementation process is also underpinned by deadlines, which may be difficult to achieve due to the weak or lacking capacity of both the public and private sector, expertise, communication for and by the stakeholders.

Moreover, in terms of institutional development, Armenia is also still yet to successfully implement one of its most important reforms – public administration reform (PAR). Although the PAR Strategy has been adopted in May 2022, little progress has been recorded so far with limited political support. Additionally, the capacity of the Government to deliver its reform agenda is hindered by numerous further obstacles, such as the implementation of evidence-based policies due to lack of good data collection and analysis. Digital transformation can also play a key role in this context. Good governance and capacity-building of state institutions also remain a challenge. In addition, the reforms of the public finance management and civil service have also slowed down due to staff turnover and recent developments in the country.

The impact of the COVID-19 pandemic, the 44-day war of September 2020 and its aftermath in the country has been exacerbated by the influx of over 100 000 Karabakh Armenians. These events have uncovered some difficulties of EU assistance in responding swiftly to the fast-emerging needs and assisting the Government handling crises adequately, for instance, when capacities of the social and healthcare systems are overstretched. While the situation in Armenia remains volatile due to the several consecutive crises and rapidly evolving challenges, the nature of the reforms process and investment needs are difficult to predict in short and medium term. Since 2018, the Government of Armenia (GoA) demonstrated that despite the challenges it can carry out important reforms (in particular the justice reforms) as well as react and absorb shocks through appropriate measures, which was demonstrated by the management of the COVID-19 pandemic. Nevertheless, some responses have been insufficient, not comprehensive enough, or had some shortcomings. Therefore, providing the EU with a flexible multi-purpose basket action driven toolkit to respond positively and swiftly to ad-hoc requests from the Government, other organisations, and to meet unforeseen emerging needs, is key to ensure the sustainability of reforms in a timely manner and provide certainty of EU funding and support.

To support policy development, coordination and strategic planning of the GoA, the action will also aim to enhance policy dialogue at a higher-level among relevant stakeholders, when appropriate, to facilitate decision-making at central government as well as sectorial level. This aims to contribute to provide strategic advice on political, institutional and financial feasibility of the reforms to ensure their effective implementation. The policy dialogue structure will be further defined during the inception phase.

Socio-economic recovery and resilience

The socio-economic recovery and resilience, in particular of the southern regions, is currently one of the most important priorities of the Government of Armenia, which is also reflected in the objectives of the Economic and Investment Plan and its flagships for Armenia. The Ministry of Labour and Social Affairs launched a reform process of the social protection system in Armenia. This includes legislative changes, draft of an umbrella strategy and testing pilot services by Territorial Unified Social Services in the Syunik region. The latter is also supported through the EU-UNICEF contribution agreement in 2022 of EUR 6.5 million. Within the next years, the Government of Armenia plans to also gradually introduce a comprehensive health insurance programme and to increase pensions and minimum wages. These reforms at such scale could benefit from sharing EU best practices and broader EU support throughout implementation with targeted capacity building such as Twinning.

The Government has already allocated EUR 125 million in cash support schemes to address the immediate needs of Karabakh Armenians and regional administrations were provided EUR 10 million to provide core-relief items. However, more sustainable solutions are yet to be put in place, including permanent housing. Considering all the challenges the country has faced through in recent years, as well as the volatile situation in the region, the Government will need comprehensive support from the development partners to address this issue.

The uncovered vulnerabilities in the socio-economic sphere in Armenia notably includes the health care system. Historically, the share of the budget allocated to the health care sector has been low, with an average of 5.8% between 2014 and 2019, increasing to 7.25% in 2020 and 2021 due to COVID-19. Moreover, in 2021, 84.3% of health spending was paid out-of-pocket, making access to affordable health care impossible to the poorest groups of the population. A reform of the health care system and its financing is therefore necessary. A national health strategy is included in the Government Programme for 2021-2026, which foresees a reform of the primary health care system with a view to improving its efficiency. In February 2023, Armenia launched a national plan to introduce a comprehensive health insurance system, with the goal of providing health insurance to the entire Armenian population by 2027. The insurance is foreseen to be introduced in stages and it should result in decreased mortality rates, support to people with disabilities and increased availability of basic medical services for all population groups. Furthermore, the Ministry of Health also plans to carry out construction and re-equipment of medical centres.

At the same time, Armenia's economy experienced a double digit (12.6%) and relatively diversified growth in 2022, which contributed to a budget surplus of 0.9% of GDP, a sharp reduction of public debt, currency appreciation against the dollar and the euro, 7% growth in consumption, and 4.5% growth in exports. In 2023, the economy grew by 8.7%, the trade turnover increased by 46%, the exports went up by 55,3%, while the imports grew by 40.2%. However, it should be noted that the economic growth is partially due to the influx of Russian businesses and trade flows, and this trend might be temporary since it is not based on solid foundations. So far, Armenia has managed to sustain macro-economic stability throughout several cycles of crises due to prudent fiscal and monetary policies. In this context, the continued implementation of the public finance management (PFM) reform in Armenia, which slowed down after 2020, is equally important. The Ministry of Finance will ensure that the upcoming PFM Strategy 2024-2028 will be based on the public expenditure and financial accountability (PEFA) assessment results which was conducted in 2023.

Number of reforms have been initiated by the Ministry of Economy aiming to improve the environment for businesses and boost economic activity, such as, reforms related to bad debt write-offs, convertible loan agreements, import/export inspections, financing contracts, digital labour contracts, educational program requirements, cash register fines, and penalties for non-payment of wages. The implementation of these and other related reforms requires capacity improvements and sufficient interinstitutional coordination. Company law framework and business registry require a comprehensive reform that would improve transparency of data, for attracting investments and enabling evidence-based policy making.

Digital and green transition

The continuation of economic reforms, particularly the transition towards a digital, green and circular economy, limiting environmental impact and taking steps towards climate adaptation are crucial for a sustainable, long-term economic growth.

Armenia's economic performance continued to be strong in 2023 in spite of the continuing Nagorno-Karabakh conflict, which happened as Armenia seized the opportunity of international sanctions on Russia to turn itself into a trade, logistics and financial hub. Consequently, investment has increased by 4 percentage points of GDP in 2023 (to 23.2%, from 19.4% of GDP in 2022) and is set to continue increasing gradually to 23.8% of GDP by 2028 (IMF).

The Government of Armenia is focusing on enhancing the management of water and air resources, aligning with its green development policies. Lake Sevan, the largest high-altitude freshwater lake in Armenia, faces contamination from agricultural runoff and untreated sewage, threatening aquatic life and ecological balance. Preserving the lake's ecosystem has been a consistent priority on the EU-Armenia agenda, with initiatives to modernize wastewater treatment infrastructure around the lake area. Furthermore, air quality across the country is impacted by various pollutants, including traffic, industrial emissions, construction activities, agricultural practices, and solid fuel/waste combustion. A recent landfill fire in Yerevan prompted discussions between development partners and the Government about joint efforts to monitor air quality and establish

multiple air quality management systems. The Government seeks support, particularly from the EU, to effectively address this pressing matter.

Lastly, the uptake of digital solutions by SMEs in Armenia is slow, and this hampers their ability to innovate and maintain competitiveness over the long run. There is a need to adopt a strategic approach to digitalisation via a coordinated approach and an improved regulatory framework. Skills play a critical role in enabling digital transition, as both individuals and organisations require certain digital competencies to leverage technology effectively. However, addressing skills shortages through training and improving data on skills gaps can help boost digital literacy in the population and workforce, empowering wider participation in the digital economy and public sector modernisation. Moreover, the institutional arrangements around SME support are fragmented and this reduces the effectiveness of SME digitalisation support measures. This is coupled with limited awareness among SMEs about local and cost-effective digital solutions. A large portion of high-tech firms have historically focused on foreign market and outsourced their services. Therefore, the benefits from the impressive ICT sector growth in Armenia are not diffused to local economic sectors.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

The **Deputies Prime Minister's (DPM) Offices**, are tasked with monitoring the CEPA implementation, updating the CEPA Roadmap, donor coordination activities and monitoring of the ODA in Armenia, and economic and financial issues. The Office is the official responsible body for the implementation of PAR. The Office will play a key role in the action in terms of coordination of activities and their implementation.

The **Ministry of Health** elaborates and implements the policies of the Republic of Armenia Government in the healthcare sector. The Ministry would play a key role in the components of the action that may deal with health reform, introduction of universal health insurance system and universal health coverage.

The **Ministry of Labour and Social Affairs** implements policies in labour and social security sectors. The Ministry would be involved in any component related to social policy and security, employment, labour and equal opportunities.

The **Ministry of Territorial Administration and Infrastructure** (MTAI) is responsible for the territorial administration and local self-governance policy development, development and implementation of infrastructure development policy in the regions and communities of Armenia and increasing of the efficiency of work of local self-governance bodies. The Ministry would play a key role in any component with a local government dimension.

The **Ministry of Environment** develops all environmental policies and is a key ministry for green development. The Ministry would be the primary partner in the components of the action that will focus on the improvement of air and water management.

The **Ministry of High-Tech** develops and implements the policy, among others, in the field of high technology, information technology and digitalisation.

The **Ministry of Economy** develops the Government's economic policy related to, *inter alia*, business environment improvement, agriculture, and small and medium enterprises. It would play a key role in any component of the action that will deal with the start-up ecosystem and green tech, tourism and agriculture sectors.

The **Ministry of Finance** oversees the public finances of the country and is one of the competent authorities to decide on financial incentives and taxation matters, as well as budget contributions to local government. The Ministry would play a key role in any component related to public finance management, including green PFM, and macroeconomics.

Depending on the needs that might arise throughout the implementation of the action, other Ministries and Governmental institutions may also be targeted by the action.

2.3. Lessons Learned

The action will build upon the significant experience amassed by the EU and other donors from implementing programmes in the past. This action will draw on the findings and lessons learned to inform its approach and ensure best practices are followed.

In 2018, Armenia embarked on an ambitious democratic reform path, however, the crises of COVID-19 and the Nagorno-Karabakh conflict and its aftermath slowed down the pace of reforms and unveiled that in view of the volatile context and rapidly evolving situation, the nature of the reform process and investment needs are difficult to predict in short-medium term. It also uncovered challenges of the EU assistance to respond swiftly to the fast-emerging needs and assist the Government handling crises adequately, for instance when capacities of the social and healthcare systems were often overstretched. Although the Government of Armenia demonstrated its commitment to carry out key reforms while reacting and absorbing shocks, some responses to the various crises have been insufficient or not comprehensive enough.

The pace of the implementation of CEPA has been evaluated as positive, with achievements recorded in justice and anti-corruption sectors. Similarly, Armenia performs relatively well under the Economic and Investment Plan (EIP) in regional comparison, with investments already mobilised in sectors ranging from support to access to finance to SMEs, to support to the education, to green and digital transformation. To support the reform process in Armenia in line with CEPA and further advance on key sector investments under the EIP which are much needed in the country, there is a need for a more flexible financing mechanism that would be able to react promptly to unforeseen and emerging needs and filling in the necessary gaps of EU assistance in the country. This assistance could range from crisis stemming from the Nagorno-Karabakh conflict, such as further needs of the displaced population in the territory of Armenia, to strengthened institutional capacity of the Government, to meeting the future environmental and digital needs.

The key lessons learned from EU and donor programmes in Armenia include the importance of collaborative approaches that consider local perspectives, building capacity of individuals and organisations, policy and legal frameworks that promote sustainability, and meaningful engagement of civil society organisations (CSOs). Donor programmes involving CSOs require transparency and accountability mechanisms, flexibility in programme design, and long-term support for sustainability. The competing priorities of the Government, changes in leadership, and the abovementioned recent crises can pose challenges for the implementation of long-term development initiatives.

Another important lesson learnt from EU programmes implementation is the importance of the policy dialogue and donor coordination with the development partners present in Armenia. Most of the donor coordination in the country is done on an unofficial basis, with various donor partners taking the lead in different sectors (such as the EU leading the donor coordination in justice and education, UNICEF in social protection etc.). As referred above, in response to the influx of the displaced population, the international donor community on the ground mobilised efficiently amidst increased efforts for coordination by the EU and UN agencies. The Government of Armenia is leading the response, in close cooperation with the international donors, albeit facing capacity constraints. The UNHCR led the development of the Armenia Refugee Response Plan (RRP) together with the Deputy Prime Ministers' office. The plan aims to support 196,000 people including refugees and local host communities, proposing a 97 million USD financing cost, together with 60 partners (11 UN, 6 INGOs, 41 NGOs and 2 RLOs)¹¹. In complementarity the Government has presented a needs assessment under

¹¹ The Armenia Refugee Response Plan (October 2023-March 2024), coordinated by UNHCR, is an inter-agency planning, coordination and fundraising tool which contributes to operationalising the refugee's coordination model. It is designed to support and complement the Government of Armenia response to the refugee situation through international solidarity, with short term to medium-long term measures focused on resilience.

its Humanitarian Response Plan for Forcibly Displaced Persons from Nagorno-Karabakh¹² in coordination with international partners. This assessment is complementary to the RRP.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The **Overall Objective/Impact** of this Action is to:

The EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA), the Government of Armenia's reform process and socio-economic development are advanced.

The **Specific Objectives (Outcomes)** of this action are:

1. Implementation of the EU-Armenia Comprehensive and Enhanced Partnership Agreement, along with wider reforms by the Government of Armenia, and the Economic and Investment Plan (EIP), is supported and progressed in line with the new EU-Armenia Partnership Agenda;
2. The capacity of the Government of Armenia to enhance the reform process and respond to crisis is improved;
3. Trade diversification is increased and business environment improved;
4. Environmental sustainability is enhanced.

The **Outputs** to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

Contributing to Outcome 1 (or Specific Objective 1)

- 1.1 Customised ad-hoc support to the implementation of CEPA and EIP commitments and wider reform agenda is delivered.

Contributing to Outcome 2 (or Specific Objective 2)

- 2.1 Armenian Government's capacity in terms of structure, resources and introduction of new systems/tools to enhance the reform process and respond to crisis is improved.

Contributing to Outcome 3 (or Specific Objective 3)

- 3.1 Improved capabilities of SMEs for market access in diversified markets
- 3.2 Strengthened regulatory framework and institutional capacity for promoting a conducive business environment.

Contributing to Outcome 4 (or specific Objective 4)

- 4.1 Air quality monitoring is improved.
- 4.2 Wastewater treatment around Lake Sevan is improved.

3.2. Indicative Activities

Activities related to Output 1:

- Capacity building (gender sensitive competence-based training, coaching, mentoring, etc.) and/or technical assistance (advice, proposals on capacity, organisational and work process aspects) to the

¹² <https://www.gov.am/en/news/item/10406/>

Government of Armenia and public bodies related to gender sensitive policy making and reform implementation.

Activities related to Output 2:

- Capacity building (competence-based training, coaching, mentoring, etc.) at institutional, inter-institutional and individual levels.
- Technical assistance (advice, proposals on capacity, organisational and work process aspects).

Activities related to Output 3:

- Technical assistance and/or capacity building (facilitating the adoption of international standards and conformity assessment procedures to enhance the competitiveness of Armenian products in global markets).
- Technical assistance and/or capacity building (support Armenian business in identifying and accessing new export markets through market intelligence, trade fairs, and business-to-business matchmaking).
- Technical assistance (streamlining business regulations, reducing, administrative burdens, and improving the ease of doing business).
- Capacity building to relevant institutions to advocate for and support the interests of private sector.

Activities related to Output 4:

- Technical assistance (advice and proposal on legal regulations in environmental sectors).
- Technical assistance (installation of air quality management systems, improvement of wastewater management systems around Lake Sevan)

3.3. Mainstreaming

Outcomes of the Strategic Environmental Assessment (SEA) screening: The SEA screening concluded that no further action was required.

Outcomes of the Environmental Impact Assessment (EIA) screening: The EIA screening classified the action as Category C (no need for further assessment). All the interventions under Strategic Objectives 1, 2, 3 and 4 fall under Category C. This is because the activities will not involve acquisition or conversion of significant areas of land that are important for ecosystem services, and there will be no use of uncultivated land or semi-natural areas for intensive agricultural purposes.

Outcome of the Climate Risk Assessment (CRA) screening: The CRA screening concluded that this action is no or low risk (no need for further assessment). The CRA screening concluded that some proposed activities, especially for Strategic Objective 4 are related to environment and may be affected by drought, floods and shifts in the main climatic patterns, which are common phenomena in the likely intervention areas. The problem analysis demonstrates awareness of climate risks and their potential level of negative impact, throughout the project's lifespan.

SEA, EIA and CRA tools shall be promoted according to needs for the activities supported by the facility.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G0. The action will include deliberate targeting of women with the aim of contributing to achievements of SDG 5 (Gender Equality) but due to the nature of the project (smaller actions that still need to be defined), it is not feasible to carry out a full gender analysis. Communities in Armenia maintain a conservative stance towards women empowerment citing cultural values. It is against this backdrop that the proposed action will use the opportunities to promote gender equality as an integral part of this intervention. This will include promoting the welfare of women and

positioning them for leadership. Some specific activities in the action document carry with them the gender equality dimension. Specific attention will be brought to the gender equality issues mainstreaming when drawing up contracts linked to the action document. The activities will be coordinated with the EU4Gender Equality Reform Helpdesk. Wherever appropriate, data will be collected and analysed in a gender-responsive way. As referred, above, around 52% of Karabakh Armenians are women and girls. While no reliable data is available, among the 25 000 displaced families there is a significant number of female-headed households, which have additional vulnerabilities and are at greater risk of poverty. The project will hence have a direct impact on women and girls as final beneficiaries of the Action. During the implementation stage and through policy dialogue, a focus on gender-specific issues will be taken into account.

Human Rights

A human rights-based approach will be applied throughout the programme, focusing on:

- Advancing social rights, including protection of socio-economic rights and empowerment of those affected by shocks;
- Building the capacity of duty-bearers to respect, protect, and fulfil the social rights of communities; and
- Making sure the non-discrimination principle is applied with regard to the selection of target groups and involvement in the programme activities, prioritising inclusive and participatory methodologies of engaging with beneficiaries.

In addition, the action will explore reasons as to why some stakeholders are not participating in mainstream development with a view to recommending measures that will address this trend by adopting strategies that promote inclusivity and participation that are at the centre of a development initiative.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0. This implies that whilst the project does not target disability inclusion specifically, it does feature in several activities.

Democracy

The action will strengthen further democratisation processes by strengthening the country’s institutional capacity and ability to deliver reforms in line with the CEPA’s objectives.

Conflict sensitivity, peace and resilience

The action’s aim is to strengthen the institutional capacity of the Government of Armenia to promptly react to crisis and thus strengthen country’s overall resilience to internal and external shocks.

Disaster Risk Reduction

Disaster Risk Reduction will be mainstreamed through the action to support the Government of Armenia to react to crisis, but also through strengthening Government’s capacities and expertise to formulate evidence based environmental policies.

3.4. Risks and Assumptions

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
External Environment	Possible military escalation along the borders of	Medium	High	Unwavering support for Armenia’s sovereignty and territorial integrity, as well as continuous efforts to enhance Armenia’s resilience.

	Armenia-Azerbaijan border			Facilitation process put in place by the EU to work towards a peace agreement between Armenia and Azerbaijan. The EU Monitoring Mission in Armenia aims to contribute to the stability along the Armenian side of the international border with Azerbaijan. Relevant measures to be undertaken as needed.
Planning, Processes and Systems	Lack of political will to undergo structural reforms	Low	High	Advocacy, continuous policy dialogue and consultations with the concerned country stakeholders.
People and the Organisation	High staff turnover at the targeted Ministries and Government bodies	Medium	High	Institutionalisation of policy dialogue and inclusion of the capacity building activities in the national training structures and training of trainers, where relevant.
Planning, Processes and Systems	Prevalence of short-term ad-hoc approach to development in practice	Medium	Medium	Advocacy, continuous policy dialogue and consultations with the concerned country stakeholders.
Planning, Processes and Systems	Change of priorities among the Government stakeholders;	Medium	Medium	Advocacy, continuous policy dialogue and consultations with the concerned country stakeholders.
People and the Organisation	Insufficient or ineffective coordination among the various components and donors	Medium	Medium	Enhanced role of the EU Delegation and relevant Government bodies of Armenia to ensure coordination and frequent monitoring.

External Assumptions

The following external assumptions are assumed:

1. The Government of Armenia and relevant sectorial Ministries continue commitment to engaging and leading a strategic development reform process, involving the European Union and other key donor organisations or partners.
2. Stable political and security situation in Armenia as well as in the region.
3. Resistance to change in working culture is limited among staff in the government administration and public bodies.
4. The level of coordination between public entities does not prevent CEPA and wider reforms implementation.
5. Resistance to change in the management of the EIP project pipeline remains limited among staff in the government administration.

3.5. Intervention Logic

The Facility will contribute to the advancement of the EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA), the Government of Armenia Reform process and socio-economic development in line with the new EU-Armenia Partnership Agenda (Impact). It will do so through various contracted interventions in a highly flexible and adaptive manner.

Interventions will leverage change among key target groups and their situation. These changes will be manifested in progress in implementation of the EU-Armenia Comprehensive and Enhanced Partnership Agreement, along with wider Government of Armenia reforms and the Economic and Investment Plan in line with the new EU-Armenia Partnership Agenda (Outcome 1), abilities and competencies of the Government of Armenia to enhance the reform process and respond to crisis are improved (Outcome 2), increased trade diversification and improved business environment in Armenia (Outcome 3) and environmental sustainability of Armenia is enhanced (Outcome 4).

It is assumed that the following external conditions will act as enabling factors in the attainment of these outcomes, namely:

- The security, political and financial situation remains relatively stable in Armenia as well as in the wider region, and
- The Government of Armenia and relevant sectorial Ministries continue to be sufficiently committed to engaging and leading a strategic development reform process, involving the European Union and other key donor organisations or partners.

In order to ensure Outcome 1, the various interventions under this facility will deliver a customised ad-hoc support to the implementation of CEPA and EIP commitments and wider reform agenda (Output 1.1) and improve Armenian Government's capacity in terms of structure, resources and introduction of new systems/tools to enhance the reform process and respond to crisis (Output 2.1) in order to ensure Outcome 2.

With the purpose to implement the Outcome 3, the facility will aim to enhance market access and trade facilitation for Armenian business (Output 3.1) and strengthen regulatory framework and institutional capacity for promoting a conducive business environment (Output 3.2). Similarly, the facility will improve the air quality monitoring (Output 4.1) and improve wastewater treatment around Lake Sevan (Output 4.2) to implement the Outcome 4.

Individual contracts under this Action may relate to more than one output or even outcome, as may be required according to demand from the Government of Armenia and its public administration.

3.6.Indicative Logical Framework Matrix

PROJECT MODALITY (3 levels of results / indicators / Source of Data / Assumptions - no activities).

In the following table, indicators will be gender-specific, wherever appropriate

Results	Results chain: Main expected results	Indicators	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
Impact	The EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA), the Government of Armenia's reform process and socio-economic development are advanced in line with the new EU-Armenia Partnership Agenda.	<p>1. Number of reforms to which the Facility has contributed</p> <p>2. Number of identified challenges which are addressed by the Government</p>	<p>1. Zero</p> <p>2. Zero</p>	<p>1. Two</p> <p>2. Two</p>	EU Reports	<i>Not applicable</i>
Outcome 1	1. Implementation of the EU-Armenia Comprehensive and Enhanced Partnership Agreement, along with wider reforms by the Government of Armenia, and the Economic and Investment Plan (EIP) is supported and progressed in line with the new EU-Armenia Partnership Agenda.	1.1 Number of reforms (including utilising evidence based policy-making) in line with CEPA, the Government Programme and EIP, with assistance of the Facility (disaggregation: Under implementation/ implemented)	1.1 Zero	1.1 Two (1 under implementation and 1 implemented)	1.1 EU Reports	The Government of Armenia and relevant sectorial Ministries continue to be sufficiently committed to engaging and leading a strategic development reform process, involving the European Union and other key donor organisations or partners.
Outcome 2	2. The capacity of the Government of Armenia to enhance the reform process	2.1 Number of public policies/ reforms developed/revised, and/or under implementation with the Facility support.	2.1 Zero	2.1 Two	2.1 EU reports (Facility/contracts reports)	The security, political and financial situation remain relatively stable in Armenia

	and respond to crisis are improved.					as well as in the region.
Outcome 3	3. Increased trade diversification and improved business environment in Armenia.	3.1 Improvement in the market share of Armenian products in targeted export markets	3.1.1 TBC	3.1.1 TBC	EU reports (Facility/contracts reports)	The Government and regional administrations continue being committed to enhance trade diversification and improve business environment.
Outcome 4	4. Environmental sustainability of Armenia is enhanced.	4.1. Number of towns and communities benefiting from improved environmental infrastructure	4.1.1 Zero	4.1.1 Three	EU reports (Facility/contracts reports)	The Government and regional administrations continue being committed to improving environmental standards and energy independence.
Output 1 related to Outcome 1	1.1 Customised ad-hoc support to the implementation of CEPA and EIP commitments and wider reform agenda is delivered.	1.1.1. Number of public entities supported with capacity building or technical assistance (disaggregated according to public officials and public bodies) 1.1.2. Number of staff having acquired competences in gender sensitive policy making and implementation	1.1.1 Zero 1.1.2 Zero	1.1.1 Two 1.1.2 Twenty	Facility reports (contracts)	Resistance to change in working culture is limited among staff in the government administration and public bodies.

		(disaggregated according to sex)				
Output 1 related to Outcome 2	2.1 Armenian Government's capacity in terms of structure, resources and introduction of new systems/tools to enhance the reform process and respond to crisis is improved.	2.1.1 Number of public entities supported with gender sensitive capacity building and technical assistance, including on coordination.	2.1.1 Zero 2.1.2 Zero	2.1.1 One	Facility reports (contracts)	Resistance to change in the management of the EIP project pipeline remains limited among staff in the government administration
Output 1 related to Outcome 3	3.1 Enhanced market access and trade facilitation for Armenian business.	3.1.1 Percentage increase in the number of Armenian business exporting to new markets. 3.1.2 Percentage increase in the value of exports to newly accessed markets compared to the previous year.	3.1.1 Zero 3.1.2 Zero	3.1.1 TBC 3.1.2 TBC	EU reports (Facility/contracts reports)	The Government and regional administrations continue being committed to enhance trade diversification and improve business environment.
Output 2 related to Outcome 3	3.2 Strengthened regulatory framework and institutional capacity for promoting a conducive business environment.	3.2.1 Reduction in the time and cost associated with starting a business in Armenia, measured by relevant indexes/ranking. 3.2.2 Percentage increase in membership of businesses in chambers of commerce and business associations.	3.2.1 Zero 3.2.2 Zero	3.2.1 TBC 3.2.2 TBC	EU reports (Facility/contracts reports)	The Government and regional administrations continue being committed to enhance trade diversification and improve business environment.
Output 1 related to Outcome 4	4.1 Air quality monitoring is improved.	4.1.1 Number of air quality monitoring systems installed	4.1.1 Zero	4.1.1 Two	EU reports (Facility/contracts reports)	The Government and regional administrations continue being

						committed to improving environmental standards and energy independence.
Output 2 related to Outcome 4	4.2 Wastewater treatment around Lake Sevan is improved.	4.2.1 Number of wastewater treatment systems installed around Lake Sevan	4.2.1 Zero	4.2.1 Three	EU reports (Facility/contracts reports)	The Government and regional administrations continue being committed to improving environmental standards.

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the Republic of Armenia.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3.1. will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this financing Decision and the relevant contracts and agreements.

4.3. Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures¹³.

4.3.1. Direct Management (Grants)

4.3.1.1. Twinning Grant

a) Purpose of the grant

The grant will contribute to the achievement of specific objectives 1, 2 and 3 of the action.

b) Type of applicants targeted

Applicants must be EU Member State administrations or their mandated bodies.

4.3.2. Direct Management (Procurement)

The procurement will contribute to the achievement of all the Specific Objectives.

4.3.3. Indirect Management with a pillar-assessed entity¹⁴

A part of this action may be implemented in indirect management with a pillar-assessed entity, which will be selected by the Commission's services using the following criteria:

- Proven necessary logistical and management capacity (human resources, organisational setup, etc.);
- Proven long-term and diverse experience, established procedures and tools for channelling assistance in a sustainable manner as evidenced by achievements within previous similar actions/projects;
- Proven sound knowledge of the Eastern Partnership countries and Armenia in particular;
- Proven reputation and credibility among beneficiaries.

The implementation by this entity entails all specific objectives of the action.

¹³ [EU Sanctions Map](#). Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

¹⁴ The signature of a contribution agreement with the chosen entity is subject to the completion of the necessary pillar assessment.

4.3.4. Changes from indirect to direct management (and vice versa) mode due to exceptional circumstances

If the implementation modality under indirect management as defined in section 4.3.3 cannot be implemented due to circumstances beyond the control of the Commission, the modality of implementation by grants under direct management would be used according to section 4.3.1.

If the implementation modality under direct management as defined in section 4.3.1. cannot be implemented due to circumstances beyond the control of the Commission, the modality of implementation by indirect management with a pillar-assessed entity would be used according to section 4.3.3.

4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.5. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	Third-party contribution, in currency identified
Grants – total envelope under section 4.3.1	3 000 000	N.A.
Procurement – total envelope under section 4.3.2	3 000 000	
Indirect management with a pillar-assessed entity – total envelope under section 4.3.3	16 900 000	TBC
Evaluation – cf. section 5.2 Audit – cf. section 5.3	100 000	N.A.
Strategic communication and Public diplomacy – cf. section 6	will be covered by another Decision	N.A.
Totals	23 000 000	TBC

4.6. Organisational Set-up and Responsibilities

It is foreseen that implementing partners will bear the responsibility to engage with the other programme stakeholders. The EU Delegation will be closely involved in the management of the action and will oversee the overall coordination. It is foreseen that this will include the following key structures:

- A Steering Committee will be set up with the involvement of implementing partners as well as the national and sub-national authorities of the involved municipalities of Armenia. The EU Delegation will support the mobilisation of participants. As key rights holders, representatives from the respective municipalities will be invited, including local authorities and community representatives. The detailed modalities of the Steering Committee will be agreed upon during the inception phase and reflected in a Terms of Reference.

The Steering Committee is expected to meet twice a year, and the EU Delegation will chair the Steering Committee.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its Outputs and contribution to the achievement of its Outcomes, and if possible, at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference the log frame matrix.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Arrangements for monitoring and reporting, including roles and responsibilities for data collection, analysis and monitoring:

- a) the implementing partners will have specific responsibilities for monitoring and reporting under this action;
- b) common indicators will, as much as possible, be used in order to allow for the action wide reporting; and
- c) indicator values could be measured at regional level or at country level and then harmonised depending on the nature of the activities.

5.2. Evaluation

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. It will be carried out for problem solving, learning purposes, in particular with respect to assess the progress of implementation of all different components of the action.

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.) levels. If deemed necessary, other donors will be invited to join. The Commission shall inform the implementing partner at least 45 days in advance of the dates envisaged for the evaluation exercise and missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.3.Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document [*Communicating and raising EU visibility: Guidance for external actions*](#) (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions, and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and delegation agreements.

For the purpose of enhancing the visibility of the EU and its contribution to this action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union. Visibility and communication measures should also promote transparency and accountability on the use of funds. Effectiveness of communication activities on awareness about the action and its objectives as well as on EU funding of the action should be measured.

Implementing partners shall keep the Commission and the EU Delegation fully informed of the planning and implementation of specific visibility and communication activities before the implementation. Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication actions as well as the results of the overall action to the relevant monitoring committees.

Appendix 1: IDENTIFICATION OF THE PRIMARY INTERVENTION LEVEL FOR REPORTING IN OPSYS

A Primary intervention (project/programme) is a coherent set of results structured in a logical framework aiming at delivering development change or progress. Identifying the level of the primary intervention will allow for:

- ✓ Differentiating these Actions or Contracts from those that do not produce direct reportable development results, defined as support entities (i.e. audits, evaluations);
- ✓ Articulating Actions and/or Contracts according to an expected common chain of results and therefore allowing them to ensure a more efficient and aggregated monitoring and reporting of performance;
- ✓ Having a complete and exhaustive mapping of all results-bearing Actions and Contracts.

The present Action identifies as

Action level (i.e. Budget support, Blending)		
<input type="checkbox"/>	Single action	Present action: all contracts in the present action
Group of actions level (i.e: i) top-up cases, ii) second, third, etc. phases of a programme)		
<input checked="" type="checkbox"/>	Group of actions	Actions reference (CRIS#/OPSYS#): ACT-62369 JAD.1350103 and JAD.1543072
Contract level (i.e. Grants, Contribution Agreements, any case in which foreseen individual legal commitments identified in the budget will have different log frames, even if part of the same Action Document)		
<input checked="" type="checkbox"/>	Single Contract 1	Foreseen twinning contract with EU MS agency to support civil aviation safety standards in Armenia
<input checked="" type="checkbox"/>	Single Contract 2	Foreseen service contract with international organization(s) or pillar assessed entity to support water management in Armenia
<input checked="" type="checkbox"/>	Single Contract 3	Foreseen contract with international organizations to improve air quality in Armenia
<input checked="" type="checkbox"/>	Single Contract 4	Foreseen service contract with international organization(s) to promote trade diversification
<input checked="" type="checkbox"/>	Single Contract 5	Foreseen service contract with international organization(s) to improve the business climate in Armenia
<input checked="" type="checkbox"/>	Single Contract 6	Foreseen twinning contract with EU MS agency to support the health system financing in Armenia
<input checked="" type="checkbox"/>	Single Contract 7	Foreseen service contract with a consulting company to support capacity building of the Government of Armenia
<input checked="" type="checkbox"/>	Single Contract 8	Foreseen service contract with EU MS agencies to promote green economy in Armenia
Group of contracts level (i.e: i) series of programme estimates, ii) cases in which an Action Document foresees many foreseen individual legal commitments (for instance four contracts and one of them being		

a Technical Assistance) and two of them, a technical assistance contract and a contribution agreement, aim at the same objectives and complement each other, iii) follow up contracts that share the same log frame of the original contract)

<input type="checkbox"/>	Group of contracts	
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