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ANNEX I

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 State and Resilience Building Contract for the Republic of Armenia

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	State and Resilience Building Contract for the Republic of Armenia Commission Implementing Decision amending the Commission Implementing Decision C (2023) 9021 final as regards the financing of the annual action plan in favour of the Republic of Armenia for 2023 OPSYS business reference: NDICI-GEO-NEAR/2023/ACT-62364 ABAC Commitment level 1 number: JAD.1350283 and JAD.1541573 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe).
2. Economic and Investment Plan (EIP)	No
EIP Flagship	No
3. Team Europe Initiative	No
4. Beneficiary of the action	The action shall be carried out in the whole territory of the Republic of Armenia.
5. Programming document	Multiannual Indicative Programme (MIP) 2021-2027 for the Republic of Armenia ¹

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

6. Link with relevant MIP objective/expected results	Priority area 5: Resilient, fair, gender-equal and inclusive societies			
PRIORITY AREAS AND SECTOR INFORMATION				
7. Priority Area, sectors	151 Government and Civil Society 160 Other Social Infrastructure & Services			
8. Sustainable Development Goals (SDGs)	<p>Main SDGs: - SDG 1 End poverty in all its forms everywhere</p> <p>Other significant SDGs: - SDG 2 zero hunger - SDG 3 good-health and well-being -SDG 4 quality education - SDG 5 gender equality - SDG 8 on promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all - SDG 10 Reduced inequalities</p>			
9. DAC code(s)	15110 - Public sector policy and administrative management (50%) 16010 - Social protection (50 %)			
10. Main Delivery Channel	12000 – Recipient government, via Budget support			
11. Targets	<input checked="" type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input 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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women’s and girl’s empowerment	<input type="checkbox"/>	<input checked="" 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 type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input type="checkbox"/>	<input checked="" 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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	EIP Flagship	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>	
	Tags	YES	NO	
	transport	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	environment, climate resilience	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	digital	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	economic development (incl. private sector, trade and macroeconomic support)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	human development (incl. human capital and youth)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	health resilience	<input type="checkbox"/>	<input checked="" 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 type="checkbox"/>	<input checked="" type="checkbox"/>	
	other	<input type="checkbox"/>	<input checked="" 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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Tags	YES	NO
	digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	transport	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	health	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	education and research	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities	<input type="checkbox"/>	<input checked="" 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 40 000 000 Total amount of EU budget contribution EUR 40 000 000 of which EUR 40 000 000 is budget support (no complementary support is foreseen) The contribution is for an amount of EUR 15 000 000 from the general budget of the European Union for 2023 and for EUR 25 000 0000 for 2024		
MANAGEMENT AND IMPLEMENTATION			
15. Implementation modalities (management mode and delivery methods)	Direct management through: Budget Support: State and Resilience Building Contract for the Republic of Armenia		

1.2. Summary of the Action

Following Azerbaijan’s military operation in Nagorno-Karabakh on 19-20 September 2023 over 100,000 Karabakh Armenians found refuge in the Republic of Armenia². This represents around 3% of the entire population of Armenia and adds to the 36,000 displaced people already in the country following the 2020 war. The immediate and medium to long-term needs of refugees will pose a significant challenge for the country, including for local host communities.

Armenia increasingly faces hybrid threats, and at the same time finds itself in an uncertain geopolitical and economic context. Despite substantial economic growth in recent years, the country is still facing a lack of 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. In addition, Armenia is faced with a near complete dependence on Russia for gas and grain supplies, with very few options for alternative sources in the short-term. This gives Russia substantial economic and political leverage, in addition to being a formal security guarantor of Armenia, contributing to further uncertainty.

Responding to the needs of refugees and displaced people will represent a considerable challenge both in the short, medium and long term. Many of them are women, or belong to vulnerable groups, including elderly,

² Hereinafter ‘Armenia’

children, persons living with disabilities and persons with chronic health conditions. Karabakh Armenians arrived physically and psychologically exhausted, in most cases with very few belongings and in need for urgent emergency assistance. While government authorities have swiftly responded to provide shelter and housing, the number of available spaces in social housing do not meet the needs. Moreover, temporary shelters will have to be replaced with longer term solutions as long as refugees have to permanently resettle in Armenia. This will for a long period exert fiscal pressure on the government budget, with increased current expenditure to provide education and healthcare for refugees, integrating them in the pension system. Additional capital expenditure will be needed to foster growth and create job opportunities for refugees. After their arrival in the Syunik region, refugees have resettled in the whole country. According to the latest available data (as of February 2024) the distribution rate in Yerevan is over 35%, in Kotayk 19.5%, and in Ararat around 13%, while only around 3.5% in Syunik, which has initially received the largest share of incoming refugees.

The Government of Armenia has been leading the response, in close coordination with United Nations High Commissioner for Refugees (UNHCR) and other international donors, albeit facing capacity constraints. Several needs assessment tools have been used to document the needs of refugees, including: i) an online tool launched by the Ministry of Labour and Social Affairs (MoLSA) to be filled out by refugees, and ii) a rapid needs assessment conducted jointly by MoLSA and UNHCR/UN agencies. The Humanitarian Center of the Government of Armenia chaired by the Deputy Prime Minister Khachatryan has developed and has approved by the end of February 2024 an Action Plan on Addressing the Needs of the Refugees from Nagorno-Karabakh³ outlining the strategy for responding to these needs, ranging from short-term core relief to housing, livelihoods, social protection and socio-economic integration in the medium to long-term. Since September 2023, the Government has launched several programmes aimed at addressing the immediate and medium-term needs of the refugees - a one-off universal multipurpose cash payment programme (AMD 100,000 per refugee), an additional cash assistance programme for November and December (AMD 50,000 per displaced person per month) to cover primary consumer expenses, and a six-month rent and utilities cost compensation programme (AMD 40,000 plus 10,000 AMD per refugee for the period of October 2023 – March 2024). The Government has also undertaken several measures to ensure that the refugees have full, free-of-charge access to the general educational and healthcare services in Armenia, as well as benefit from the social protection mechanisms in place, including pensions, social benefits and state-funded scholarships for studying in vocational and higher education institutions.

The overall objective of this Action is to assist the Government of Armenia to i) manage the short-term impact on the public finance, and avoid further destabilisation, ii) address the medium and longer-term needs of Karabakh Armenians. The Action aims to contribute to the implementation of the support programmes adopted by the Government to enable the refugees to resettle in Armenia. Specifically, the action will strengthen the Government's ability to deliver financial assistance to refugees in the short and medium term; and facilitate the long-term integration of those refugees who will decide to integrate in the Armenian social structures (e.g. education, pension, and healthcare systems).

Without this assistance, most of the refugees will be at risk of experiencing multiple forms of poverty. The Action therefore directly contributes to SDG 1 on ending poverty, SDG 2 on zero hunger, as well as to SDG 3 on good-health and well-being, SDG 4 on quality education SDG 5 on gender equality, SDG 8 on promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, as well as SDG 10 on reduced inequalities. The Action contributes to the following pragmatic areas: public sector policy and administrative management and social protection. The Action directly contributes to the priority of the 2021-2027 Multiannual Indicative Programme relating to resilient, fair, gender-equal and inclusive societies (Priority 5).

³ Hereinafter 'Action Plan'

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 offensive as the latest escalation in the three-decade long conflict, virtually the entire population of Nagorno-Karabakh – over 115,000 people – have fled to Armenia, including 30,000 children⁴. The military offensive followed a months-long blockade of the Lachin corridor that connected Nagorno-Karabakh to Armenia, resulting in an already dire humanitarian situation. The military offensive was followed by a ceasefire agreement and a decree signed by the de facto leadership of Nagorno-Karabakh dissolving all so-called state institutions and ending the existence of the so-called Republic of Nagorno-Karabakh per 1 January 2024.

In response to the influx of people, the Government has already put in place several cash support schemes, undertaking measures to also extend public services (education, healthcare, social protection) to the refugees. In parallel, the Government has worked on envisioning solutions for durable housing for the refugees, which is still to be translated into a coherent policy document. The overall cost of housing response for the refugees is estimated to be around EUR 1.2 billion, entailing voucher schemes to purchase property (Armenian citizenship will be required to benefit from this scheme), social housing options, as well as continued rental and utility subsidisation. The Government has already announced the extension of the six-month rent and utilities cost compensation (AMD 40,000 plus AMD 10,000 per person) programme until the end of December 2024. All refugees (regardless of refugee or citizenship status) will be eligible to benefit along with those displaced since 2020 (estimated at around 30 000).

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. The Armenia Refugee Response Plan (RRP) has been set up by UNHCR in coordination with the Deputy Prime Minister's office to bring together 60 partners, including 43 national NGOs, to support and complement the Government response. The plan aims to support 196,000 people including refugees and local host communities. The EU reacted swiftly increasing the humanitarian funding to more than EUR 12 million in 2023 to support the displaced people by providing cash assistance, shelter, food security and livelihoods assistance.

Simultaneously, the EU-facilitated peace process has seen challenges. For example, Azerbaijan did not attend the initially foreseen five-way leaders' level meeting planned at the European Political Community Summit in Granada on 5 October 2023. Karabakh Armenians seem unlikely to return as they have a lack of trust in the leadership of Azerbaijan.

The Government of Armenia has also publicly expressed concerns that Azerbaijan could challenge the territorial integrity of Armenia to ensure a physical connection to Nakhchivan. In addition, **Armenia's dependence on Russia adds to the unpredictability.** Due to a high degree of security and economic dependence, including for the supply of gas and wheat, concerns are increasing about potential retaliatory measures from Russia as Armenia continues its firm path of democratic reforms and closer relations with the EU. This includes the recent ratification of the Rome Statute, recognising the jurisdiction of the International

⁴ UNICEF Armenia Humanitarian Situation Report No. 1, 2 October 2023, [UNICEF Armenia Humanitarian Situation Report No. 1, 02 October 2023 - Armenia | ReliefWeb](#)

Criminal Court (ICC) who had issued an arrest warrant against Russian President Vladimir Putin, as well as the request and subsequent agreement to partially withdraw the Russian Federation Border Guards from its borders and airport.

Armenia is a landlocked country, bounded to the north and east by Georgia and Azerbaijan, and to the southeast and west, respectively, by Iran and Türkiye. **Borders with two of its neighbours, Azerbaijan and Türkiye, are currently 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 8,280 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 8.7% in 2023, its weak connectivity and tensions with Azerbaijan undermine the prospect of a sustainable growth. The Armenian population is estimated at 2.977 million⁵, out of whom 64% live in urban areas and 36% live in rural areas. The poverty rate in 2019 (described as income equal or less than USD 5.5/day in 2011 purchasing power parity (PPP) terms) amounted to 44% and gradually declined to 23.5% in 2022⁶.

The action is complementary to bilateral and regional initiatives and programmes of the EU and other donors, many of which are in the process of being partially redirected to provide additional support to addressing the needs of refugees.

The action will be supported by the implementation of the Economic and Investment Plan (EIP) for the Eastern Partnership (EaP) – a key tool for advancing socio-economic development and resilience in Armenia. The plan mobilises public and private investments and enables the EU to work together with international financial institutions to design and implement projects. Through the EIP, the EU is already providing targeted support to the heavily affected southern regions, including through the construction of two non-formal education centres. Going forward, investment opportunities will be explored jointly with the government and IFIs in areas such as social housing, job creation and energy diversification, among others. As such, it will significantly contribute to addressing the medium and long-term needs resulting from the mass displacement of people.

EU support will be delivered in the Team Europe spirit, building on the successful EUR 116 million Team Europe Initiative launched earlier this year in support of the socio-economic development of Syunik, with the involvement of 10 Member States (Austria, Czechia, Estonia, Finland, France, Germany, Lithuania, Poland, the Netherlands and Sweden). This initiative now serves as a useful 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.

In addition, the Action will complement the EU's ongoing and planned support to the reform agenda of the Government of Armenia, including justice and police reform, as well as education and health. The EU provides substantial assistance for the implementation of the EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA), which is the main driver of reforms in the country. Continuing this support will play a crucial role in ensuring stability and the resilience of democratic institutions in the face of destabilisation efforts.

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; post-conflict

⁵ National Statistical Committee of the Republic of Armenia: The Demographic Handbook of Armenia 2023, https://armstat.am/file/article/demog_2023_1.pdf

⁶ IMF: <https://www.imf.org/en/Countries/ARM>

domestic political turmoil, including snap elections in 2021; risks related to the impact of Russia's war of aggression against Ukraine; and the ensuing mass displacement of people to Armenia following the offensive by Azerbaijan in Nagorno-Karabakh on 19-20 September.

The arrival of refugees accounting to around 3% of the entire population of the country puts significant short-to medium-term fiscal strain on the Government's budget and generates a long-term increase in public expenditure related to the integration of refugees into social structures from education to healthcare, and the pensions system. It also poses additional public policy challenges related to the need to create employment opportunities, provide affordable housing, and address the needs of host communities stemming from the inflow of people, some of which already affected by the arrival of displaced persons after the conflict in 2020. All this will result in considerable short-and long-term budgetary needs. The budget support programme will provide a contribution to the Government's efforts to meet those needs, as laid down in the Government's Action Plan. In addition, it will allow the Government of Armenia to continue pursuing its domestic reform agenda in parallel, which is crucial for the overall social and economic resilience of the country at an uncertain time.

Immediate needs and mid-to-long-term socio-economic resilience

The Government has estimated the cost of the housing response of over 115,000 refugees, to be around EUR 1.2 billion. In the short/medium term Armenia has provided a one-off payment (AMD 100,000) and an additional two-month assistance (AMD 50,000/month for November and December 2023), as well as monthly payments (AMD 40,000 plus 10,000) during the period of October 2023 – March 2024, which has further been extended until end of December 2024. The Government has presented a comprehensive needs assessment under its Humanitarian Response Plan for Forcibly Displaced Persons from Nagorno-Karabakh⁷ in coordination with international partners, which provides a strategic and operational basis for the Action Plan which has been approved in February 2024 by the Humanitarian Center of the Government of Armenia chaired by the Deputy Prime Minister Khachatryan. In addition, in order to raise funds for covering the needs of the refugees, the Government of Armenia has opened a treasury account for donations.

The uncovered vulnerabilities in the socio-economic sphere in Armenia notably includes the healthcare system which denotes poor coverage and lacks an insurance 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. In 2022 and 2023, the healthcare budget constituted around 6% of the overall state budget. 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. 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. Within the next years, the Government of Armenia also plans to increase pensions and minimum wages. However, the arrival of over 100 000 displaced Karabakh Armenians will put additional pressure on all social security systems.

In addition, a significant proportion of the refugees belong to a vulnerable group. Approximately half of the refugees are reported to be women and girls, out of which 2,070 are currently pregnant with an estimated 2% expected to give birth in the coming 6 months⁸. In addition, 31% of refugees are reported to be minors, around 18% are reported to be older people, and 16% to suffer from disabilities. Attending to the needs of vulnerable groups will therefore be a particularly pressing challenge.

Whilst the Government has avoided having to house refugees in tents, in the medium-term, refugees should transition from temporary accommodation to permanent housing. Furthermore, most of the refugee population was forced to leave most of their belongings behind, in addition to losing their property, and will have to replace essential household items, among others. Housing, including providing social housing, will

⁷ <https://www.gov.am/en/news/item/10406/>

⁸ UNFPA situation report 4, 7 December 2023,

https://eeeca.unfpa.org/sites/default/files/pub-pdf/arm_co_sitrep4_nov_2023_refugee_response_final_version.pdf

be one of the most important needs to address in the coming months, especially as any decisions related to housing policy will likely also affect host communities.

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

The **Office of Deputy Prime Minister Mher Grigoryan** is tasked with donor coordination activities and monitoring of the ODA in Armenia, as well as economic and financial issues. The Office plays a key role in coordinating the actions of international donors and partners on the ground.

The **Office of Deputy Prime Minister Tigran Khachatryan** is mandated as the humanitarian situation coordinator for the actions of the GoA related to the influx of displaced Karabakh Armenians.

The **Ministry of Health (MoH)** elaborates and implements the policies of the Republic of Armenia Government in the healthcare sector. The Ministry would play a key role in any action related to health, including expanding health coverage to the refugee population.

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

The **Ministry of Education, Science, Culture and Sport (MoESCS)** is a central body of executive authority that elaborates and implements the policy of the GoA in the sphere of education, among others. The Ministry has been a major driver of reform in the education sector.

The **Ministry of Territorial Administration and Infrastructure (MTAI)** is a central body of executive authority that develops and implements the policy of the Government in the field of territorial administration and infrastructure management.

The **Ministry of Finance (MoF)** oversees the public finances of the country and is one of the competent authorities to lead the work on preparing the Government's budget, as well as budget contributions to local Government.

The **Ministry of Internal Affairs (MoIA)**, which has recently integrated the rescue, police and migration services, will use the existing know how and structures to better address the refugee crisis.

The **Ministry of Foreign Affairs (MFA)** collaborates with international partners to raise awareness and gather international support concerning the influx of displaced Karabakh Armenians.

Organisational issues: Coordination within the Government needs to be ensured in articulating the needs and corresponding actions. Similarly, the Government, with clearly identified divisions of task, should take the lead in coordinating the efforts of international donors, international organisations and civil society organisations on the ground.

2.3. Lessons Learned

The action will build upon the significant experience gathered 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. The action also builds on the experience of delivering immediate humanitarian aid to Armenia to respond to emergency needs in the wake of the influx of Karabakh Armenians.

An important lesson learnt from the implementation of EU programmes is the importance of policy dialogue and donor coordination with 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. Following the mass displacement of Karabakh Armenians to Armenia, whilst the humanitarian response was quick, the Government struggled to formulate their needs in a coordinated manner. Similarly, the division of responsibilities within the Government in relation to the refugee crisis was not always clear, and initial

donor coordination efforts therefore remained to be improved. Supporting Government coordination and working closely with central and local authorities as well as other donors remains crucial.

In addition, both past EU programmes and the delivery of humanitarian aid underscored the important role that local authorities play in mapping and addressing the needs of the refugee population, and in enabling their socio-economic integration. Both local authorities and civil society organisations have amassed substantial experience in this field following the 2020 war and the ensuing arrival of refugees – albeit in much smaller numbers. Similarly, the EU, international donors and implementing partners have gained useful experience over the past three years in designing and implementing programmes targeted at the most affected regions, such as Syunik, and at the needs of both refugees and host communities, ranging from housing and education to economic opportunities. Close coordination with EU Member States and with European Financial Institutions have proven key for reinforcing the impact of these projects, as evidenced by the Team Europe Initiative “Resilient Syunik”.

In response to the influx of the refugees, 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 Humanitarian Center of the Government of Armenia chaired by the Deputy Prime Minister Khachatryan has developed an Action Plan to respond to the short-, medium-, and long-term needs of the refugee population. Prior to this, at the onset of the crisis, the UNHCR initiated the development of the Armenia Refugee Response Plan (RRP) with partners, the coordination of which, along with the entire humanitarian response, was led by the Deputy Prime Minister's office. The plan mapped the needs of the displaced population and host communities at a cost of USD 97 million, with a view to provide support to 196,000 people bringing together 60 partners (11 UN, 6 INGOs, 41 NGOs and 2 RLOs)⁹.

Lessons learned from EU and donor programmes in Armenia also 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.

2.4. Additional Areas of Assessment

2.4.1. Public Policy

Addressing the needs of the displaced Karabakh Armenians is a task that encompasses most if not all sectors of the economy. There was no strategy/policy ready when the influx started, as the Government did not anticipate it. Since the arrival of the refugees the Government has responded with various measures aimed at providing an immediate and a longer-term response.

To effectively deal with the displacement of Karabakh Armenians to Armenia, the Humanitarian Center of the Government of Armenia chaired by the Deputy Prime Minister Khachatryan has developed the “Action Plan on Addressing the Needs of Forcibly Displaced Persons from Nagorno-Karabakh” which has been approved at the end of February 2024¹⁰, while at the same time taking ad – hoc measures to address the immediate needs. The overall objective of the Action Plan is to contribute to addressing the short, medium, and long term needs of refugees, and to facilitate their long-term integration in Armenia’s social structures, such as education, pension, and healthcare systems.

⁹ 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.

¹⁰The Action Plan has been approved by a decision (reference ‘PROTOCOL N ՓՎ/24-2024’ (ՓՎ) taken by the Humanitarian Crisis Center led by DPM Khachatryan and has not yet been made publicly available on the Government’s official website.

The Government aims to achieve this through short, medium, and long-term measures. To cover immediate needs, the Government allocated approximately EUR 10 million to the regional administrations of the marzes for the basic needs of the refugees they host, as well as launched several universal multipurpose cash payment schemes since October 2023 to mitigate the economic hardship felt by the displaced population. It has been estimated that AMD 30 billion (approximately EUR 71 million) was allocated during the period from October 2023 to March 2024 to cover the initial support schemes that were put in place. Furthermore, the Government has implemented measures to integrate refugees into the existing social protection system, ensuring that those entitled to pensions or other social benefits receive them. Refugees have been granted full access to education and healthcare services. Starting from October, the Government has facilitated the enrolment of children in public primary and secondary educational institutions. Moreover, the Government has introduced a support programme to fully or partially cover the costs for over 3000 students participating in vocational education or higher education institutions for the academic year 2023-2024. Additionally, the Government has commenced the registration of refugees in primary healthcare facilities, covering the costs for various medical services.

Additionally, the Government has initiated a number of employment programmes. These include the out-of-competition referral of teachers to marzes, training of medical workers with referral to regional medical organizations, and promotion of employment in the manufacturing sector. Additionally, the Government introduced a short-term training and work placement support programme, which enables the provision of assistance to refugees, including through the organization of short training, tuition reimbursement, and scholarship provision, as well as providing assistance to the employer in order to compensate the beneficiary's salary and/or taxes.

The Government has been working closely with international partners to develop viable housing schemes for the refugees. These will potentially include support for:

- Purchasing apartments or houses,
- Building new houses,
- Expanding the social housing stock.

The support amount will be provided in housing (purchase) certificates (vouchers) per person, depending on the chosen settlement location indicated in the certificate may vary. It is anticipated that only those displaced obtaining Armenian citizenship will be able to access the housing certificates. The housing programme is to be executed in successive phases over the next three to five years with priority given to families based on the number of children, prior to which the Government has extended the rent and utilities cost compensation (AMD 40,000 plus AMD 10,000 per person) programme until end of December 2024, as referred above, as a transitional measure.

The majority of refugees are currently expected to stay in Armenia indefinitely. As a result, it will be essential to guarantee their full integration into Armenian social support structures to guarantee them the same opportunities, rights and protection as Armenian citizens, while ensuring the socio-economic recovery of host communities. In the long term, the “Action Plan on Addressing the Needs of Forcibly Displaced Persons from Nagorno-Karabakh” approved by the office of the Deputy Prime Minister Khachatryan puts in place measures for the full integration of refugees into Armenian social, education and healthcare structures. Overall coordination will be ensured at the level of the two Deputy Prime Ministers’ offices and is expected to rely on the existing sectoral policies. The quality of the existing strategies and policies is overall deemed to be sufficient although coordination issues as well as lack of financial means remain a challenge.

The institutional capacities of the Government to provide the assistance are limited and therefore it will be crucial to aid the Government, to involve Armenian society overall in particular the business community and civil society including but not limited to NGOs (both international and national). Governance in the various sectors is satisfactory, public policies are becoming more inclusive, the promotion of gender equality and women/girls empowerment are key features of these. Environmental protection and the fight against climate change are also part of public policies but implementation will need to be enhanced.

As for statistical and monitoring systems with respect to the policy fields covered, the situation varies. Some sectors have good monitoring systems, whilst others do not, therefore work will have to be done and supported by donors to deliver a credible overall monitoring system.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

2.4.2. Macroeconomic Policy

The economy recovered strongly in 2021 and 2022 following a 7.2% contraction in 2020. The re-location of tens of thousands of Russian citizens and businesses and the associated financial flows, coupled with the ongoing post-pandemic recovery, led to Armenia's strongest economic performance since 2007. Overall, GDP growth amounted to 12.6% in 2022 and 8.7% in 2023¹¹. In 2023, Armenia's trade turnover grew by 46%, the exports went up by impressive 55.3%, while the imports increased by 40.2%. Consistent with the economic boom, the labour market witnessed a strong improvement in 2022, the unemployment rate decreased from 15.5% (2021) to 12.6% (2023). The employment rate (although it remains generally low) rose to 53.2% in 2023 also due to the entry of many high-paid Russian migrants (mostly dealing in the IT sector). Inflationary pressures started to ease in late 2022-early 2023. Core inflation remained above headline at 4% (y-o-y) in December 2023. The fiscal position improved considerably in 2022 as robust economic activity and elevated inflation boosted revenues. In 2022 the state budget revenues surged by 24.3% year-on-year on the back of strong proceeds from VAT (a reflection in the rise in consumption and trade) as well as income taxes (increase in both employment and wages that was coupled with rising corporate profitability). Fiscal over performance persisted in 2023 with revenues at 25.2%. Armenia recorded an impressive reduction of its public debt ratio in 2022. It decreased by 14 percentage points to 49.2% of GDP at the end of 2022, which is the lowest level since 2015, and remained moderate at 50.3% in 2023. The headline fiscal deficit narrowed to 2.1% of GDP in 2022 on account of robust revenues and spending under-execution. It reached 2.9 % of GDP in 2023.

Under the International Monetary Fund (IMF) programme, the authorities pledged reforms to address some key shortcomings related to the labour market, infrastructure development, access to finances and public finance management e.g., new education strategy adopted into law in 2022, new employment strategy (ongoing), review of existing bankruptcy legislation (ongoing), new PFM strategy (ongoing), review to identify and address bottlenecks preventing completion of foreign-funded infrastructure projects.

On the macroeconomic policy side, the Government is implementing its 2021-26 programme, which outlines an agenda to rebalance Armenia's economy. The programme aims at achieving inclusive growth, improving governance and maintaining financial system stability. The authorities are committed to ensuring medium-term fiscal sustainability, rebuilding buffers, and creating fiscal space through growth-oriented spending and revenue reforms. The Government's programme focuses on scaling up investment in human and physical capital to raise potential growth and maintain efforts to strengthen Public Finance Management (PFM). In addition to creating space for these priorities, it is essential to rebuild buffers as a guard against future shocks and the current refugee crisis.

Armenia has a 3-year Stand-By Arrangement (SBA) with the IMF approved in December 2022. Notwithstanding various domestic and external shocks that hit the economy over the past four years, programme performance has been considered as satisfactory by the IMF and important structural reforms have been advanced. The most recent SBA review is dated 17 June 2024. It concludes that the programme is broadly on track. The review noted that all quantitative performance criteria and indicative targets for end-2023 were met and progress on structural benchmarks continued. The IMF estimated that USD 97 million (0.4% of GDP) is needed to meet the most urgent humanitarian needs of the displaced Karabakh Armenians,

¹¹ IMF, <https://www.imf.org/en/Countries/ARM>

while a comprehensive assessment is required for budgeting their medium to long-term needs. Longer-term integration of refugees would entail creating sustainable housing opportunities, access to education, healthcare, and provision of social services. Since around 63% of the refugees are of working age (15–64), their integration into the workforce would require expansion of employment programs and opportunities, enhancing access to finance, and skill development and training.

Thus, the need for expenditure to address the influx of Karabakh Armenians could lead to a substantial increase in the debt to GDP ratio, which could be further complicated by the cancel the debts resulting from the loans provided to the so-called Government of Nagorno-Karabakh. Finally, there are also risks with regards to possible retaliatory economic and trade measures from Russia. The Government has embarked upon macroeconomic scenario planning to be prepared for such events.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.4.3. Public Financial Management

The 2023 PEFA draft report was completed in October 2023 and is currently pending a PEFA check by the PEFA secretariat. This was the first assessment in Armenia under the 2016 PEFA Framework. Overall, the assessment is that the PFM system in Armenia is well established with sound institutions and responsibilities. The most notable progress was achieved in the areas of budget preparation and execution, fiscal and public debt management, public sector accounting and revenue mobilisation. A particular strength of the PFM system is its ability to manage expenditure consistently close to budgeted levels in spite of significant shocks experienced in recent years such as the COVID-19 pandemic, the armed conflict on Armenia's borders since 2020 and the consequences of the Russian aggression against Ukraine. These necessarily created unanticipated spending pressures. The 2023 PEFA noted that the maintenance of overall fiscal discipline has been supported by a number of elements of the PFM systems, and in particular by a clear, predictable and orderly budget process.

The main weaknesses are in the areas of public asset management, performance evaluation of budget programmes, external scrutiny and audit. In particular: (i) there are no approved economic selection criteria for capital investment projects and all documentation relevant to the selection and monitoring of investment projects is not published; (ii) there is an excessive number of budget programmes and 'measures' with limited focus on outcomes, and inadequate independent evaluation of programmes; and (iii) there are significant limitations on the Audit Chamber's access to information, in particular to personnel records and information of commercial nature.

In terms of domestic revenue mobilisation, general government revenue comprises around 24% of GDP (IMF). In comparison with the countries in the region this indicator is relatively low. Armenia is keen to increase its tax to 25% by 2026 to support sustainable and inclusive growth. One important element of achieving this objective is rationalizing tax expenditures, including through streamlining preferential tax regimes, exemptions, and tax incentives. Reforms to strengthen revenue mobilisation are part of the Memorandum of Economic and Financial Policies of Armenia's ongoing SBA with the IMF¹². With IMF technical assistance, the government of Armenia is making progress toward identifying inefficient and regressive tax expenditures. In parallel, the authorities are also implementing reforms in revenue administration. The efforts to limit the use of cash transactions have enhanced revenue mobilization. The Tax Code was recently amended to strengthen tax compliance and the audit powers of the State Revenue Committee.

Gender-sensitive budgeting reforms started on a pilot basis in 2019-2020 with EU and UNDP technical assistance. Based on the pilot-testing, MoF developed a manual for preparation of gender-sensitive budget

¹² *Staff Report, First Review under Armenia Stand-By Arrangement, IMF, June 2023*

programs, which was included in the package of MoF methodological instructions for the preparation of 2021-2023 MTEF and the 2021 State budget. Yet, a Diagnostic Assessment of Gender-Responsive Budgeting Report prepared with the assistance of ADB in 2022 concluded that ministries need significant technical support, including capacity development on gender equality, gender analysis and gender-responsive budgeting. Technical support on gender-responsive budgeting has also been provided by the EU4Gender Equality reform help desk and further technical support to the Government may be provided by the help desk.

The current PFM Reform Strategy of 2019-2023 is in its final stage of implementation under the leadership of the MoF. It covers all core areas of the PFM and includes measures that address the weaknesses identified by the diagnostic assessments of development partners such as the IMF and SIGMA. The 2023 PEFA report will be used as a baseline to develop the next PFM Reform Strategy set to start in 2024. The most recent notable reforms are the outsourcing of the internal audit function by Government agencies, the introduction of regulations on public investment appraisal and selection, and transfer of complaint mechanisms for public procurement to the general courts. These reforms will require more time to develop to prove that the efficiency in the respective areas was enhanced.

There are clear monitoring arrangements, including the preparation of the Action Plan and six-month and annual progress reports on the implementation of the Action Plan and reforms are prioritised and sequenced based on a good intervention logic. There is a sufficient level of commitment to reforms by Government and institutional arrangements are clear, with MoF in the lead of the reforms. Financial sustainability is ensured through continued donor interest in supporting PFM reforms in Armenia, though dependence on external assistance remains an area of vulnerability.

Finally, the authorities also achieved progress in establishing the institutional structure for anti-corruption fight and prevention. The anti-corruption strategy and action plan 2019-2022 was approved by the Government and came into effect in October 2019. Important steps include the establishment of a single anti-corruption entity, a new law introducing civil forfeiture for seizure of illegal assets and the phasing-in of a public beneficial ownership register. To ensure the continuation of anti-corruption reforms and the implementation of international convention commitments and recommendations, the new Anti-Corruption Strategy and Action Plan for 2023-2026 was approved by the Government on 26 October 2023.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.4.4 Transparency and Oversight of the Budget

Armenia has a relatively high level of budget transparency as evidenced by the 2023 draft PEFA assessment. Indicators related to the provision of key PFM information to both the Parliament and the general public scored high. As noted by the 2023 draft PEFA, the annual budget estimates, the in-year execution reports, and the year-end financial statements of all central Government budget organisations (line ministries and SNCOs) are published on the MoF website in a timely manner and allow a complete picture of Government revenue, expenditures and financing.

Armenia participated in the Open Budget Survey for the first time in 2021. The transparency score is 61 out of 100, which indicates that substantial information is made available to the public. The MoF website provides full and easily accessible information related to the budget and all relevant laws and regulations. In addition, since 2018 the MoF publishes an annual Citizens' Budget based on the enacted budgets and an annual Citizen's Budget Execution Report.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The action consists of a State and Resilience Building Contract to support societal and economic resilience in Armenia. The budget support contract contributes to the government's policy of addressing the short-and medium-term needs of refugees, as well as enabling their long-term socio-economic integration. The action will be accompanied by robust political support and dialogue, and steps to further speed up the implementation of the Economic and Investment Plan in Armenia.

In line with the Action Plan, and the overall measures taken by the Government to support socially vulnerable groups and in particular displaced Karabakh Armenians, the **overall objective/impact** of this Action is: the socio-economic impact resulting from the mass displacement of Karabakh Armenians is mitigated. This will be achieved by strengthening the Government's overall capacity to deliver tailor made services to the refugees and host communities and supporting the long-term socio-economic integration of Karabakh Armenians.

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

1. Socio-economic hardship, with a special focus on supporting refugees with essential needs, including food, is addressed.
2. Medium-term socio-economic stability, including through supporting the refugees with energy costs and access to housing, is ensured.
3. Long-term socio-economic integration of refugees, with a special focus on women and vulnerable groups, through ensuring their inclusion in the Armenian education, social and child protection and healthcare systems, and integration into the job market, as well as the socio-economic cohesion of host communities, is supported.

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

- 1.1 Contributing to Outcome 1 (or Specific Objective 1): Immediate financial difficulties of displaced Karabakh Armenians are alleviated.
- 2.1 Contributing to Outcome 2 (or Specific Objective 2): Medium-term housing and winterisation needs of the refugees are met.
- 3.1 Contributing to Outcome 3 (or Specific Objective 3): Long-term socio-economic integration of refugees, in particular vulnerable groups including women, the elderly and people with disabilities is ensured.

The **Direct Outputs** to be delivered by this action contributing to the corresponding Induced Outputs are:

- 1.1.1 Contributing to Induced Output 1.1: Targeted measures to address the immediate needs of refugees are put in place.
- 2.1.1 Contributing to Induced Output 1.2: Measures to provide mid-term support to refugees with energy and housing costs are put in place.
- 3.1.1 Contributing to Induced Output 1.3: Measures are put in place to ensure integration of the refugees into the job market and their coverage under the Armenian education, healthcare, and social protection systems.

3.2. Indicative Activities

Activities related to Output 1:

To address the immediate needs of the Karabakh Armenians, the Government provided the regional administrations of the marzes of Armenia hosting the refugees with around EUR 10 million. Additionally, the Government launched an immediate one-time universal multipurpose-cash assistance (AMD 100,000 per person) programme in October 2023. The programme entails one-time payment to all refugees (children and adults) regardless of vulnerability, transfers are to be made through commercial banks directly to the bank accounts of the refugees – an expedited process of setting up a bank account for refugees is put in place in collaboration with commercial banks. In addition, on 23 October 2023, the Government announced about an additional 2-months AMD 50,000 cash support (per person) with an aim to provide additional support for addressing the initial essential needs of the refugees.

The activities under Output 1.1 will aim to provide assistance to the Government of Armenia to deliver the Government support programmes for addressing the immediate needs of the refugees, in particular the one-time multipurpose cash assistance. Overall, these activities will aim to provide immediate assistance ensuring that the initial needs of the refugees, including those related to food security, are addressed.

Activities related to Output 2:

Needs assessment conducted by the Government of Armenia and the humanitarian actors identified that for the initial stage to be able to settle the refugees in Armenia, there was a need to provide them with shelter and basic household necessities. Access to safe and affordable housing, as well as their inability to pay rent and utility costs as a result of increased prices in Armenia were identified by the refugees as a primary concern¹³. Considering that the weather conditions in winter were expected to be harsh, access to winter-specific assistance, including means to pay utility costs was also among the main concerns for the refugees.

To address the above-mentioned needs the Government announced in October 2023 a six-month rent and utilities cost compensation (AMD 40,000 plus AMD 10,000 per person) programme¹⁴, with additional cash assistance of AMD 50,000 for the months of November and December 2023. Starting from October 2023 for a period of 6 months, displaced Karabakh Armenians, with the exception of those owning residential property in Armenia, would receive a payment from the Government of Armenia for renting apartments and for paying utility expenses of which gas and electricity costs have the largest share. Distribution of the funds will be done through commercial banks with payments to the bank accounts of the refugees.

The activities under Output 2.1 will aim to provide assistance to the Government of Armenia to deliver the Government support programmes for addressing the temporary housing needs and covering utility (in particularly energy) costs. Overall, these activities will aim to support the refugees to settle in locations of their choice and will provide them with a safety net of 6 months for accessing job market and engaging in economic activities.

Moreover, as referred above, the Government has extended the rent and utilities cost compensation programme from April until the end of December 2024 with an overarching intention to ensure support.

Activities related to Output 3:

The Government of Armenia has identified five areas to be covered for addressing the longer-term needs of the refugees 1) employment – expansion of existing employment programmes; access to affordable business and agricultural loans; training and re-skilling 2) social protection – provision of pensions and social benefits to the vulnerable groups, expansion of social assistance services focusing on the elderly, children, people with disabilities 3) education-ensuring access to education, including tertiary 4) healthcare – ensuring free of charge access to primary healthcare, as well expansion and enhancement of healthcare institutions across Armenia 5) housing – offering sustainable housing opportunities through designated programmes and schemes, including both social housing solutions, as well as public-private partnerships.

13 UN Inter-Agency Armenia Refugee Response Plan <https://data2.unhcr.org/en/documents/details/103868>

14 Government of Armenia Decree N 1763-L adopted on 12 October 2023 <https://www.arlis.am/DocumentView.aspx?DocID=184035>

The activities under output 3.1 will focus on supporting 17 efforts of the Government of Armenia to ensure the integration of the refugees, including the most vulnerable groups – the elderly, children without parental care, people with disabilities, and victims of domestic violence, into the public services – education, health and social protection. The activities will also support training and re-skilling of the refugees through scaling up of existing employment programmes to ensure integration of the refugees into the job market and graduation from social protection programmes.

In general, addressing the longer-term needs of the displaced Karabakh Armenians, in particular those focusing on job market integration and sustainable housing solutions, will require immense analytical effort to develop evidence-based and efficient policies/ programmes and investments into overall strengthening of public service delivery mechanisms in Armenia. Activities can therefore include among others technical assistance, analysis and feasibility studies, support to policy drafting, as well as capacity building measures and implementation of systemic reforms in the relevant policy areas. Support to awareness-raising and information actions can also be part of the support measures.

3.3. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

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).

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).

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that the principals of gender equality and women empowerment are significant objectives of this Action.

The principles of gender equality and women empowerment are significant objectives to this Action. The principle of gender equality will be embedded in the activities related to targeted programmes for the refugees. Based on the activities to be conducted in the framework of the Action, vulnerable women and men shall be provided with social support to cope with the negative effects of their displacement. It is estimated that around 52% of the displaced Karabakh Armenians are women. 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. Therefore, during the implementation stage and through policy dialogue, a focus on gender-specific issues, including gender-based violence, will be taken into account and coordination with the EU4Gender Equality Reform Helpdesk will be ensured. Wherever appropriate and possible, data will be collected and analysed in a gender-responsive way.

Human Rights

Actions under this programme will apply the human rights-based approach and be based on the principles of good governance, equality and the inclusion of socially or economically deprived or vulnerable groups.

Disability

As per OECD Disability DAC codes identified in section 1.1, this Action is labelled as D1. This implies that the inclusion of persons with disabilities is an important objective of the Action. The Action envisages to provide targeted social support to the displaced women and men, girls and boys with disabilities. According

to the Government of Armenia data there are approximately 9,000 persons with disabilities among the displaced Karabakh Armenians.

Democracy

By enabling swift Government response to the needs of the refugees the Action will enable the Government to focus on key on-going reforms in the area of Justice and good governance.

Conflict sensitivity, peace and resilience

The Action is intended to address the needs of conflict-affected population (including displaced Karabakh Armenians) and host communities in Armenia, as well as to provide them with means for resilience-building in the country.

Disaster Risk Reduction

N/A

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 Armenia-Azerbaijan border.	Medium	High	<p>Unwavering support for Armenia’s sovereignty and territorial integrity, as well as continuous efforts to enhance Armenia’s resilience.</p> <p>Continuous dialogue in view of a peace deal between Armenia and Azerbaijan.</p> <p>The European Union Mission in Armenia was launched in February 2023 with an objective of contributing to stability along the Armenian side of the international border with Azerbaijan, build confidence on the ground, conduct active patrolling and reporting, and to support normalisation efforts between Armenia and Azerbaijan.</p>

Planning, processes and systems; People and the organisation	The operational capacity of the Government to implement the Action and reach to the most vulnerable among the displaced Karabakh Armenians in the most efficient and timely manner.	Medium	Medium	Strengthening the Government's capacity to deliver on broader society's socio/economic expectations in a strategic and efficient manner through on-going EU programming, e.g. focused on social protection system strengthening (under AAP2021).
Planning, processes and systems; People and the organisation	Lack of capacity of the Government to define and implement longer term response measures to address the needs of refugees.	Medium	Medium	Pursue policy dialogue and provide technical support to the relevant public authorities through on-going EU programmes, ensure close co-ordination with international partners, business community and civil society organisations to support envisioning of the longer-term solutions.
External environment; Planning, processes and systems; People and the organisation	Maintenance of stability-oriented macroeconomic policy and progress in the implementation of public finance management reforms.	Medium	Medium	PMF reform in Armenia progressing at good pace based on the PFM Reform Strategy and Action Plan updated in 2020.

External Assumptions

The following external assumptions are assumed:

1. The vast majority of the displaced Karabakh Armenians will remain in Armenia and the Government will remain committed to their integration by adopting and implementing tailored programmes for addressing their short, medium- and longer-term needs.
2. The Government will be able to put in place a comprehensive response plan focusing not only on the immediate and medium term, but also longer-term solutions for the displaced Karabakh Armenians, whilst addressing the needs of host communities stemming from the inflow of people, some of which already affected by the integration needs of the displaced population following the conflict in 2020.

3.5. Intervention Logic

The underlying intervention logic for this Action is that by putting in place well-designed targeted measures to support the short, mid-term and longer-term needs of the displaced Karabakh Armenians the Government will be able to ensure a smooth integration of the refugees in the socio-economic life in Armenia. The initial multipurpose cash support programmes will help to alleviate the financial burden on the refugees and will provide a safety net for settling in a preferred location in Armenia and to look for opportunities to engage in economic activity. Whilst the follow-up employment and training programmes will enable most of the refugees to integrate into the job market – thus graduating from the social assistance schemes and reducing the burden on the system. At the same time, the Government of Armenia will be supported to expand its public services in education, healthcare and social protection to absorb the vulnerable groups of refugees

(e.g. elderly, people with disabilities, children without parental care) requiring longer-term or permanent assistance. Access to public services, as well as envisioning sustainable housing solutions will be an important mitigation measure to prevent the vulnerable groups to become trapped in a cycle of multidimensional poverty and deprivations, enabling their integration in Armenia.

In order to achieve the abovementioned outputs, continuous policy dialogue and technical support to the relevant public authorities will be provided. In addition, close co-ordination with international partners, business community and civil society organisations will be of the highest importance. If the abovementioned outputs are delivered and are combined with the Government's capacity to deliver on support measures to the refugees in a strategic and efficient manner and with the ability to maintain a stability oriented macro-economic policy, the Action will help the Government of Armenia to counteract socio-economic hardship caused by increased burden of supporting over 100,000 refugees, with a special focus on the most vulnerable groups among the refugee population, including in consultation with civil society organisations in the implementation process.

3.6. Indicative Logical Framework Matrix

Results	Results chain	Indicators (max. 15)	Baselines (value and year)	Targets by the end of the budget support contract (value and year)	Sources of data (1 per indicator)
Indicative Impact of the policy		Extent to which socio-economic systems in Armenia remain stable amidst the integration process of refugees.	N/A	To be defined in consultations with the Government (2025)	<i>IMF and World Bank reports and statistics or other external reports.</i>
	The socio-economic impact resulting from displacement of Karabakh Armenians is mitigated.	Refugees benefit from various support measures by the Government facilitating socio-economic integration in Armenia.	0 (2023)	Number of Government assistance programmes adopted and continuously implemented (2025)	<i>Government report on adopted and implemented measures related to the Action Plan.</i>

Expected Outcomes of the policy	<p>1. The socio-economic hardship, with a special focus on supporting refugees with essential needs, including food, is addressed.</p>	<p>1.1 Share of refugees receiving one-time multi-purpose core-relief cash assistance of AMD 100,000 disaggregated by sex; disaggregated by age groups.</p>	<p>1.1 0 (2023)</p>	<p>1.1 at least 100 000 (2024)</p>	<p><i>Government report on adopted measures related to the Action Plan.</i></p>
	<p>2. Medium-term socio-economic stability, including through supporting the refugees with energy costs and access to housing, is ensured.</p>	<p>2.1 Share of refugee families benefiting from the housing certificate/voucher scheme provided by the state.</p>	<p>2.1 0 (2023)</p>	<p>2.1 to be defined upon adoption of the Government housing support programme (2025)</p>	<p><i>Government report on implementation of respective programmes on multi-purpose cash support.</i></p>

	<p>3. Long-term socio-economic integration of refugees, with a special focus on women and vulnerable groups, through ensuring their inclusion in the Armenian education, social protection and healthcare systems, and integration into job market, as well as the socio-economic recovery of host communities, is supported.</p>	<p>3.1 Share of refugees receiving state-funded medical treatment in various medical centers in Armenia</p> <p>3.2 Stability of share of registered school age refugees in school.</p> <p>3.3 Regularity of monthly payment of state pensions to pension age refugees and other pension beneficiaries</p> <p>3.4 Share of refugees receiving other types of social benefits (i.e. disability benefits, child benefits, etc.)</p> <p>All disaggregated by sex.</p>	<p>3.1 0 (2023)</p> <p>3.2 16,600 (2024)</p> <p>3.3 0 (2023)</p> <p>3.4 0 (2023)</p>	<p>3.1 to be defined in consultations with the Government (2025)</p> <p>3.2 at least 16,600 (2025)</p> <p>3.3 at least 20,300 (2025)</p> <p>3.4 at least 1,000 (2025)</p>	<p><i>Government report on adopted measures related to the Action Plan.</i></p> <p><i>Government report on implementation of programmes on longer term programmes aimed at socio-economic integration of refugees.</i></p>
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Induced Outputs	1.1 Immediate financial difficulties of displaced Karabakh Armenians are alleviated	1.1.1 Share of refugees receiving 2-months multi-purpose cash assistance of AMD 50,000, disaggregated by sex; disaggregated by age groups.	1.1.1 yes (2023)	1.1.1 at least 70,000 per month (2024)	<i>Government report on implementation of respective programmes on multi-purpose cash support.</i>
	2.1 Medium-term housing and winterisation needs of the refugees are met	2.1.1 Share of refugees receiving 6 months assistance of AMD 40,000 for rent compensation (disaggregated by sex; disaggregated by age groups) 2.1.2 Share of refugees receiving 6 months assistance of AMD 10,000 to cover utility bills (disaggregated by sex; disaggregated by age groups)	2.1.1 yes (2023) 2.1.2 0 (2023)	2.1.1 at least 80,000 per month (2024) 2.1.2 at least 80,000 per month (2024)	<i>Government report on implementation of respective programmes on multi-purpose cash support on rent and utilities from November 2023 to April 2024.</i>
	3.1 Long-term socio-economic integration of refugees, in particular vulnerable groups including women, the elderly and people with	3.1.1 Share of refugee children integrated into the education system, including tertiary. 3.1.2 Share of refugee students receiving state	3.1.1 0 (2023) 3.1.2 0 (2023)	3.1.1 at least 16,600 (2025) 3.1.2 at least 3000 (2025)	<i>Government report on adopted and implemented measures related to the Action Plan.</i>

	disabilities is ensured.	scholarships for their education in vocational education and higher education institutions in Armenia for the academic year 2023-2024			<i>Government report on adopted and implemented measures related to the Action Plan.</i>
		3.1.3 Share of refugees with registered access to primary healthcare services	3.1.3 0 (2023)	3.1.3 at least 20,000 (2025)	
		3.1.4. Share of refugee educators receiving training and gaining employment in educational institutions in Armenia	3.1.4 0 (2023)	3.1.4 to be defined in consultations with the Government (2025)	
		3.1.5. Share of refugee medical personnel receiving training and gaining employment in medical institutions in Armenia	3.1.5 0 (2023)	3.1.5 to be defined in consultations with the Government (2025)	
		3.1.6 Share of refugees employed in the manufacturing sector	3.1.6 0 (2023)	3.1.6. to be defined in consultations with the Government (2025)	
		3.1.7 Share of refugees benefiting from Government employment programmes	3.1.7. 0 (2023)	3.1.7 to be defined in consultations with the Government (2025)	

		<p>who sustain employment.</p> <p>3.1.8 Share of refugees receiving 9 months assistance of AMD 40,000 for rent compensation and AMD 10,000 to cover utility expenses through the extension of the Government support programme¹⁵</p> <p>All disaggregated by sex and age groups.</p>	3.1.8. 0 (2023)	3.1.8 at least 80.000 per month (2025)	<i>Government report on implementation of respective programmes on multi-purpose cash support on rent and utilities from April to December 2024.</i>
Direct Outputs	1.1.1 Targeted measures to address the immediate needs of refugees are put in place.	1.1.1.1 Adoption of a Government support programme on multi-purpose cash assistance to meet the immediate needs of the displaced Karabakh Armenians.	1.1.1 0 (2023)	1.1.1 1 Government support programme adopted (2023)	<p><i>Government report on adopted and implemented measures related to the Action Plan.</i></p> <p><i>Government report on</i></p>

¹⁵ The extended support programme cover the period of April-December 2024.

					<i>implementation of respective programmes on multi-purpose cash support.</i>
	2.1.1 Measures to provide mid-term support to refugees with energy and housing costs are put in place.	<p>2.1.1.1 Government support programme on cash assistance for accommodation and utility expenses of the refugees.</p> <p>2.1.1.2 Action Plan on Addressing the Needs of displaced Karabakh Armenians is approved by the Humanitarian Center of the Government of Armenia chaired by the Deputy Prime Minister</p>	<p>2.1.1.1 0 (2023)</p> <p>2.1.1.2 0 (2023)</p>	<p>2.1.1.1 1 programme adopted and continuously implemented (2024)</p> <p>2.1.1.2 Action Plan adopted and continuously implemented (2024)</p> <p>.</p>	<p><i>Government report on implementation of respective programmes on multi-purpose cash support on rent and utilities extended until December 2024.</i></p> <p><i>Government report on adopted and implemented measures related to the Action Plan.</i></p>

	<p>3.1.1 Measures are put in place to ensure integration of the refugees into the job market and their coverage under the Armenian education, healthcare, and social protection system.</p>	<p>3.1.1.1 Extension of the Government support programme on cash assistance for accommodation and utility expenses of the refugees.</p> <p>3.1.1.2 Government employment schemes for supporting the integration of refugees in the Armenian labour market</p> <p>3.1.1.3 Government support programme on housing support schemes for the refugees</p>	<p>3.1.1.1 0 (2023)</p> <p>3.1.1.2 0 (2023)</p>	<p>3.1.1.1 Extension of the programme approved and implemented (2024)</p> <p>3.1.1.2 to be defined in consultations with the Government (2025)</p> <p>3.1.1.3 to be defined upon adoption of the Government housing support programme (2025)</p>	<p><i>Government report on adopted and implemented measures related to the Action Plan.</i></p>
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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 will be carried out and the corresponding contracts and agreements implemented, is 42 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 of the Budget Support Component

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 40 000 000. No complementary support is foreseen. This amount is based on the commitment of the partner country to allocate national budget resources (including the EU budget support) to mitigate the socio-economic impact of the displacement of Karabakh Armenians and addressing the needs of over 100,000 refugees.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Government programmes on addressing the immediate, mid-term and longer-term needs of the displaced Karabakh Armenians and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement that may be used for variable tranches may focus on the following policy priorities:

Measures adopted and implemented under the Government's National Action Plan on addressing the needs of displaced Karabakh Armenians, as referred above.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action.

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante or at the latest by the end of the first quarter of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3. Budget Support Details

The following disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into the Armenian dram will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

The budget support component consists of three fixed tranches and one variable tranche indicatively expected to be disbursed, respectively, in Q2 2024 (EUR 13,500,000 million) and in Q1 2025 (EUR 1,500,000 million), as well as Q4 2025 (EUR 12,500,000 fixed and EUR 12,500,000 variable tranches).

4.4. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	
	2023	2024
Budget support - cf. section 4.3	15 000 000	25 000 000
Total	40 000 000	

4.5. Organisational Set-up and Responsibilities

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. The indicative Armenian authorities involved in the implementation of the Action will include: the offices of the Deputy Prime Ministers, the Ministry of Finance, the Ministry of Labour and Social Affairs, Ministry of Education, Science, Culture and Sport, the Ministry of Territorial Administration and Infrastructure, the Ministry of Health, the Ministry of Interior Affairs, and the Ministry of Economy.

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 indicative logframe matrix and the partner's action plan and programmes on addressing the needs of the displaced Karabakh Armenians.

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:

The Government will coordinate and monitor the development of the above-mentioned actions and programmes, including possible necessary reviews. The responsible agency for each objective and measure will be in charge of developing sectoral performance-based action plans with further specified outcomes, outputs, Key Performance Indicators (KPIs) and budgets based on the evidence-based policy and the budgeting principles of the Government of Armenia. Close monitoring of the situation will be performed in coordination with the IMF (on public finance management) and UN agencies and other humanitarian partners (on delivery of targeted services to the refugees).

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows:

- Nork Social Services Technology and Awareness Center of the Ministry of Labour and Social Issues is the main service for gathering data on recipients of state social assistance benefit schemes and employment programmes with established systems for data collection and analysis. The Center benefits from institutional and data systems strengthening interventions under an on-going EU programme on social-protection system strengthening.
- National Centre of Educational Technologies (NCET) is managing Education Management Information Service (EMIS). The EMIS is the main service for gathering data from the schools. All schools in Armenia have access to EMIS. School representatives are regularly trained by NCET on filling out the data. During the last 3-4 years the quality of data collection is essentially improved. Electronic registers were also introduced in EMIS, which allows NCET to get data on student attendance and academic achievement on a daily basis. EMIS system was synchronized with other data system, which allows the NCET to get data on students' mobility within and outside of the country.
- The assessment of performance indicators may require carrying out external reviews or data verification exercises to contribute to strengthening the policy monitoring framework and national statistical systems.

5.2. Evaluation

The evaluation of this Action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 60 days in advance of the dates envisaged for the evaluation 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.

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 contribution 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 EU Delegation in Armenia fully informed of the planning and implementation of specific visibility and communication activities before implementation starts. 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.

Communication and visibility activities might be coordinated with partner country's communication of the policy itself and/or its results. Actions related to communication and visibility will be coordinated with the Strategic communications project of the EU Delegation, to ensure coherence of narrative and message, as well as horizontal strategic communications.

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#): i) ACT-62364/JAD.1350283 and JAD.1541573 (top-up)
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 financing agreement with the Government of Armenia on budget support programme on socio-economic integration of the displaced Karabakh Armenians
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)		