

ANNEX 2

of the Commission Implementing Decision on the Annual Action Programme 2013 in favour of Armenia to be financed from the general budget of the European Union

Action Fiche for Support to Regional Development in Armenia

1. IDENTIFICATION

Title/Number	Support to Regional Development in Armenia <i>ENPI/2013/024-484</i>		
Total cost	Total estimated cost: EUR 11,750,000 Total amount of EU budget contribution: EUR 10,000,000 This action is co-financed in parallel co-financing by the Government of Armenia for an amount of EUR 1,750,000 (max 25% of the PRDP component)		
Aid method / Method of implementation	Project Approach Direct centralised management (grants – call for proposals; procurement of services)		
DAC-code	15110	Sector	Public sector policy and administrative management

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

The European Union in its Country Strategy Paper (CSP 2007-2013) acknowledges “Regional Development” as one of the main priority areas for its cooperation with Armenia. The proposed action is in line with the EU assistance priorities, as part of priority sector 3 of the National Indicative Programme (NIP) 2011-2013, "Socio-Economic Reform and Sustainable Development". In addition, Regional development is one of the priorities of the Eastern Partnership under its bilateral actions, and additional funds were made available in order to cooperate with partner countries on Pilot Regional Development Programmes (PRDPs) modelled on the EU Cohesion policy.

The Government has recognised the importance of regional development for Armenia and has had a continuous policy dialogue with the EU since 2009. The aim is to ensure that implementation of programmes and projects is taken forward within an agreed set of regional development priorities whose delivery will generate effective and sustainable results.

The main objective of this programme is to support the Government of Armenia in progressing towards a more balanced social and economic development between regions in Armenia. The main expected results are: to increase the capacity of the national and regional authorities to take forward, promote, manage, and monitor the regional development process; to create a sustainable regional development funding mechanism; to enhance coordination and

communication amongst the relevant stakeholders; to have stronger regional planning involving national, regional and local public authorities; and to implement an open grant call scheme resulting in a number of successfully implemented projects with the purpose to promote activities that support and develop the regional/local social and economic environment.

2.2. Context

2.2.1. Country context

2.2.1.1. Economic and social situation and poverty analysis

Armenia's economic performance has strengthened in 2012. Growth has reached 6.4% in 2012 with particularly strong performance in agriculture, agro processing, and in mining and services. Construction is showing signs of recovery. The growth is expected to moderate to 4.3% in 2013, as the economy returns to trend and given conditions in Europe and Russia.

According to the National Statistics Service "Social Snapshot and Poverty in Armenia" published in 2012, the poverty level in 2011 reduced as compared to the previous year. In 2011, more than third of population (35.0%) was poor, 19.9% was very poor and 3.7% was extremely poor. While in 2011 the poverty level was reduced against 2010, both the incidence of poverty and its severity increased as compared to 2008. The economic decline in 2009 and 2010 over 2008 created prerequisites for deteriorated living conditions and increased poverty incidence. As a result of the global economic crisis, the poor suffered the most, while the rich increased their wealth even further.

Disparities in Armenian regions that had previously been decreasing for five years are now increasing rapidly. This is mostly affecting rural regions where the working population is inactive, especially young adults. The issues currently facing the regional economies in Armenia include lack of economic competitiveness, limited industrial/service sector diversification, dependence on migrant worker-remittances and remittances from Diaspora, growing youth unemployment, lack of quality business infrastructure and technical innovation, and poor physical infrastructure.

2.2.1.2. National development policy

Since 2003, several overarching strategies, the Poverty Reduction Strategy Paper (PRSP), its successor, the Sustainable Development Programme (SDP) and the latest **Armenia Development Strategy (ADS)** put priority on economic development. The ADS (still at a draft stage), whose main objective is sustainable economic growth and creation of new jobs, highlights the necessity for development and implementation of targeted policies to address regional disparities and views it as one of the economic policy priorities. According to the ADS, regional development should not only contribute to the creation of a favourable economic and social environment in the whole country but also to a better delivery of public services for all citizens.

2.2.2. Sector context: policies and challenges

The delivery of regional development policy, programming, and project development in Armenia is primarily the responsibility of the Ministry of Territorial Administration (MTA). The current position of the Government on regional development was introduced by the **“Concept on Regional Development in Armenia”** adopted by the Government in June

2011. This concept includes recognising and prioritising regional development, developing a strategy for sustainable economic development requesting regional development plans from all Marzes (Armenian administrative regions), and preparing regional development strategy and action plans of activities. More specifically, it focuses on addressing regional disparities, ensuring capacities of national, regional and local authorities to facilitate the delivery of regional development projects, reducing unnecessary overlaps and duplication, ensuring economies of scale, securing sustainable development within Marzes (and their communities), decentralising the decision-making processes and enabling a top-down/bottom-up approach to regional and local development.

Each **Marz** has a **strategic plan** itemizing aggregated key spending areas, mostly related to public sector, social and welfare assets, and some modest expenditures allocated for SME support and tourism. These plans are developed by the **Marz Development Councils** chaired by the Marzpets (Regional Governors) and involving local authorities, representatives of private sector and civil society organisations (CSOs). Thematic working groups, with the same range of stakeholders, support the Councils.

The key policy challenge is for the MTA to define a proper strategy for regional development and to roll out a Regional Development Action Plan (RDAP) reflecting the key actions necessary to contribute to the alleviation of disparities between Armenian regions. In addition, there is a need to ensure coherence and a comprehensive integration of policies managed by different Ministries that impact upon regional development. This is particularly true in the area of rural development, which will need to be further developed in close cooperation between the MTA and the Ministry of Agriculture. Finally, an effective regional development policy will require restructuring of current institutional structures in order to improve the delivery of services to citizen in regions.

2.3. Lessons learnt

A number of programmes already implemented in Armenia on regional development (two REDAM¹ projects and regional development projects in Gegharkunik and Tavush regions funded by the UK Department for International Development) revealed the need to promote regional initiatives through consistent and concerted actions reflecting a top-down/bottom-up approach. They further showed the need for an effective policy framework as well as strong capacity of relevant stakeholders.

2.4. Complementary actions

The EU is in the process of funding a Technical Assistance project (TA Phase I – being tendered) which will support a more strategic approach to regional development and will aim to secure a solution on how to best fund, implement and manage an integrated approach based on EU best practice. This programme will also have strong synergies with two EU budget support programmes: "Support to Agriculture and Rural Development - ENPARD² Armenia" (Annual Action Programme 2013) and "Continuation of vocational education and training (VET) reform and development of an employment strategy" (Annual Action Programme 2009) in which a number of actions are designed to develop VET activities and a more modern agriculture in rural areas. In addition, the **ENPI Civil Society Facility (CSF)**, the **Non State Actors – Local Authorities (NSA-LA)** thematic programme and a project on "Support to democratic governance in Armenia" under the ENPI bilateral portfolio, will also

¹ Regional Development of Armenia – funded by the EU

² European Neighbourhood Programme for Agriculture and Rural Development

contribute to capacity building of CSOs, which will actively be involved in the design, implementation and monitoring of regional development actions.

UNDP is implementing the project "Community Development: Aid for Trade" (2011 – 2013) with the general objective to foster democratic governance, reduce poverty and regional disparities, and foster economic activities at community level. The "Civil Society and Local Government Support Program (2010-2014)" funded by **USAID** and implemented by **Counterpart International** aims at increasing the level of informed and organised civic activism at the local and national levels, along with more participatory, decentralised, accountable governance that leads to a more democratic society. **The German Agency for International Cooperation (GIZ)** and the **Council of Europe** have also been funding projects in local governance.

2.5 Donor coordination

At governmental level, a Regional Development Working Group (RDWG) has been created with the objective to coordinate and monitor policies on regional development. Members of this group are from relevant line Ministries, international donors, the EU Delegation and Marzes representatives. However, this working group has, up to now, not been functioning fully and it is one of the aims of this project to strengthen it.

At the donor level, ad-hoc meetings are organised to share information on the status of projects/programmes in the regional development sector. However, as there are a high number of actors involved and taking into account ongoing or planned interventions in different regions, it is necessary to further strengthen coordination to ensure complementarity and cost effectiveness.

3. DETAILED DESCRIPTION

3.1. Objectives

Overall Objective:

To support the Government in progressing towards **a more balanced social and economic development between regions of Armenia.**

Specific Objectives:

- 1. To develop the competencies and institutional capacities** of key national and regional institutions to ensure the design, review and monitoring of relevant regional development strategies and action plans as well as their implementation through management of agreed actions and projects (Component 1);
- 2. To develop a project pipeline**, ready to be financed through a grant scheme, following priorities defined in the Armenian Regional Development Plans and according to the PRDP approach (Component 2).

3.2. Expected results and main activities

Component 1: Developing the competencies and institutional capacities of key national and regional institutions

Expected results:

- **The capacity of the MTA, regional authorities and regional development councils is increased** to develop, manage, and monitor the regional development process; **Skills of existing personnel are significantly developed** and **new specialist personnel are recruited** within the MTA to provide a specific resource and expertise; **The coordination and communication mechanisms are enhanced** amongst the relevant line Ministries, regional authorities, and regional development councils to ensure better integration and effectiveness of regional development initiatives;
- A **Regional Development Strategy and Regional Development Action Plan** are approved by the Government;
- **Regional Development Plans** are evaluated and updated involving national, regional, and local public authorities and other relevant stakeholders;
- A **sustainable Regional Development funding mechanism** is created and functioning;
- **The institutional framework at regional/local level is revised**, in order to ensure a more efficient and effective delivery of services to Armenian citizens in regions;
- **Regional statistics are upgraded** as a basis for improved, evidence-based policy planning, programming, monitoring and evaluation.

Main activities:

- A technical assistance project (TA Phase II) will follow up on the results of TA Phase I project (see 2.4 complementary actions) to **further increase institutional capacity of the MTA and regional authorities** in developing and monitoring the Regional Development Strategy and related Action Plan;
- The TA project will further assist the MTA and regional authorities **to set up regular internal monitoring and review process of regional development actions**, as well as the establishment and functioning of a Regional Development Fund (or similar mechanism);
- The TA project will further support **the effective functioning of the Regional Development Working Group** to improve coordination and effectiveness of actions at the regional level;
- The MTA and the National Statistics Service will **upgrade the statistical setup** to ensure that relevant and accurate data can be collected and processed at the regional, city and local community levels.

Component 2: Developing a project pipeline, ready to be financed through a grant scheme

Expected results:

- **An open grant call scheme is launched and completed**, resulting in a number of successfully implemented projects following Regional Development Plans priorities;

Main activities:

- **Organise information days with all relevant regional actors** including national/regional Chambers of Commerce, Development Councils of Marzes (within regional authorities), regional development agencies and business centres, industry and trade associations, educational organisations, universities, technical colleges and civil society organisations, on the objectives of the grant call scheme;
- **Organise a series of regional forums** where key stakeholders will present regional profiles, including Marz Development Plans, as well as potential growth sectors. The outputs generated will assist the identification of realistic eligibility criteria for projects considered under the proposed grant scheme;
- **Launch of an open call for proposals** with the objective to finance projects relevant to the needs highlighted in the Marz Development Plans and following the PRDP approach. The MTA, regional authorities, Regional Development Councils and other relevant line Ministries will actively participate in the management, monitoring and evaluation of the selected projects;
- The TA project will **support the design of regional development projects** by organising workshops on how to design relevant proposals. This activity should actively involve women and vulnerable groups.

3.3. Risks and assumptions

Risks

Major risks, as stated in the country's risk management framework, developed by the EU, can be summarised as follows:

- Political instability;
- Lack of relevant and realisable projects to absorb funds available under the grant call scheme;
- Reduced budget allocation by Government to the sector;
- Limited integration of regional development and rural development at the policy level;
- Deficiencies in a number of PFM areas: internal control, procurement procedures, external audit;
- Corruption and fraud;
- Lack of willingness by donors to coordinate their support.

The mitigating measures are as follows:

- Enhancing policy dialogue, involving both national and regional actors and structures, to ensure political commitment, inter-ministerial coordination as well as budget availability;
- Drafting a new anticorruption strategy and implementing associated measures, including at regional and local level;
- Implementing Public Administration Reforms;
- Enhancing donor coordination mechanisms;
- EU support in the area of PFM reforms.

Assumptions

- Continued commitment from the Government to support the regional development reform agenda as well as to support the reform of the institutional framework at regional/local level;
- Active, regular participation of all relevant partners/stakeholders in the policy dialogue on regional development at national and regional levels;

3.4. Cross-cutting issues

This project will support further progress in transparency, democratisation and good governance i.e. ensuring that regional development programmes and projects clearly illustrate an integrated top-down / bottom-up approach as a basis for participation of all stakeholders at regional and local levels.

It will further promote equal opportunity and ensure that women as well as vulnerable groups will fully benefit from the regional development activities promoted. This implies putting in place specific provisions to encourage them to participate in the grant call scheme (component 2 for this project).

Actions promoted under this project will adhere wherever possible to the best environmental practices as embedded in EU environmental legislation, i.e. including the need to produce Environmental Impact Statements (EIS) for substantive physical infrastructure projects that may be generated under regional development programmes.

3.5. Stakeholders

The main stakeholders of the programme include beneficiaries at national level: mainly Ministry of Territorial Administration, Ministry of Economy, Ministry of Science and Education, Ministry of Agriculture, National Statistics Service, industry trade associations, industry sector clusters, Research and Development Councils, universities, innovation centres and other relevant civil society organisations as well as beneficiaries at regional and local level: Marzes, Local Economic Development Units, Municipalities, Community Councils, Regional Development Agencies, local chambers of commerce, SMEs associations, business centres as well as secondary and higher education institutions and regional civil society organisations.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of the Financial Regulation.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.2. and 4.3. will be carried out, is 48 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3. Implementation components and modules

4.3.1. *Grants: open call for proposals (direct centralised management) for Component 2 of the programme*

- (a) Objectives of the grants, fields of intervention, priorities of the year and expected results:

The main objective of the grant call scheme is to finance a number of pilot projects, implementing activities that will support and develop the regional/local social and economic environment by addressing needs highlighted in the Marz Development Plans, taking into account also the nationally approved sector strategies.

Under the PRDP approach, the aim will be to provide support to the economic and social development of a number of selected regions in sectors with potential growth, promoted by the public sector as well as private-public partnerships. It will also aim at improving the functioning of regional labour markets by supporting employment creation as well as a more targeted training of the labour force.

- (b) Eligibility conditions

Under the PRDP approach, proposals must be presented by eligible not-for-profit public or private sector entities:

- public sector operator, such as local or provincial authorities, Regional Development Agencies or other developmental bodies (for example, Rural Development Centres, Local Economic Development Offices, SME agencies/associations, chambers of commerce and industry, local public utility companies, tourism development bodies, local employment offices and Local Employment Councils, or higher education institutions;
- private sector operator, such as business organisations, cluster associations, industry and professional associations or other organisations such as vocational education institutions, employers and entrepreneurs associations;
- non-governmental or international organisations.

- (c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant. The essential award criteria are relevance of the proposed action to the objectives of the call, design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

- (d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 75 %.

The maximum possible rate of co-financing may be up to 100 % in accordance with Articles 192 of the Financial Regulation if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

- (e) Indicative quarter to launch the call

First quarter of 2015.

4.3.2. Procurement (direct centralised management)

Subject	Type	Indicative number of contracts	Indicative quarter of launch of the procedure
Developing the competencies and institutional capacities of key national and regional institutions (components 1 and 2 apart from call for proposals)	Services	1	1st quarter of 2015
Evaluation	Services	1	2 nd quarter of 2017
Audit	Services	1	4 th quarter of 2016
Communication and visibility	Services	Up to 2	2 nd quarter of 2015 3 rd quarter of 2017

4.4. Scope of geographical eligibility for procurement in direct centralised and decentralised management

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 21(7) of the basic act on the basis of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.5. Indicative budget

Module	Amount in EUR million	Third party contribution (Government of Armenia)
4.3.1. - Call for proposals (direct centralised)	7.0	1.75
4.3.2. - Procurement (direct centralised)	2.5	
4.7. - Evaluation and audit	0.4	
4.8. - Communication and visibility	0.1	
Totals	10.0	1.75

4.6. Performance monitoring

This project will be monitored through the Results-Oriented Monitoring (ROM) system for EU funded projects and programmes. A steering committee will be established to ensure regular and effective review and application of the recommendations made.

4.7. Evaluation and audit

The programme may be subject to an evaluation in order to assess the relevance, efficiency, effectiveness, impact and sustainability of its achievements. Independent evaluators may be contracted by the European Commission in accordance with its internal procedures. In addition, the European Commission may mobilise ad hoc audit missions if deemed necessary.

4.8. Communication and visibility

Throughout the implementation of the programme, the best possible visibility will be sought through actions to be organised in cooperation with all relevant stakeholders, in line with the Communication and Visibility Manual for EU External Actions.