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ANNEX I

to the Commission Implementing Decision on 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 OPSYS business reference: NDICI-GEO-NEAR/2023/ACT-62364 ABAC Commitment level 1 number: JAD.1350283 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
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

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

	160 Other Social Infrastructure & Services			
8. Sustainable Development Goals (SDGs)	Main SDGs: - SDG 1 End poverty in all its forms everywhere Other significant SDGs: - SDG 2 zero hunger - 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			
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

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"/>	<input type="checkbox"/>
Reduction of Inequalities	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

	COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
14. Amounts concerned	Budget line(s) (article, item): 14.020111 – Eastern Neighbourhood Total estimated cost: EUR 15 000 000 Total amount of EU budget contribution EUR 15 000 000 EUR 15 000 000 for 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 financial year 2023.			
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 and the ensuing ceasefire between Azerbaijan and the *de facto* authorities, within a week over 100,000 refugees fled Nagorno-Karabakh and found refuge in the Republic of Armenia². Representing around 3% of the entire population of Armenia and adding 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, including for local host communities.

Armenia 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 will represent a considerable challenge both in the short, medium and long term. Many of them belong to vulnerable groups, including elderly, women and children, people living with disabilities and people with chronic health conditions. Refugees 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 refugees will not be able to return, thus will 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, while integrating them in the pension system. Additional capital expenditure will be needed to foster growth and create job opportunities for refugees. First arrived in the Syunik region, which is on the frontline, refugees have currently resettled in the whole country, namely in Yerevan (38% - highest numbers), Syunik (16%), Kotayk (8%) and Ararat (7%) provinces.

² Hereinafter ‘Armenia’

The Government of Armenia is 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 joint rapid needs assessment conducted jointly by MoLSA and UNHCR/UN agencies. The Government is currently working on an Action Plan for the Support and Socio-Economic Integration of the Displaced Population of Nagorno-Karabakh³ to outline 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. 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) and a six-month rent and utilities cost compensation programme (AMD 50,000 per refugee, and an additional AMD 50,000 per month for November and December). The Government also envisages adopting social service programmes for the most vulnerable groups.

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 Nagorno-Karabakh refugees. 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, SDG 5 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 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).

1.3. Beneficiary of the action

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

2. RATIONALE

2.1. Context

Following Azerbaijan's military operation as the latest escalation in the three-decade long conflict, virtually the entire population of Nagorno-Karabakh – over 100,000 people – have fled to Armenia, including 30,000 children⁴. The military offensive followed a months-long blockade of the Lachin corridor that connects Nagorno-Karabakh to Armenia, resulting in an already dire humanitarian situation. The military operation was followed by a ceasefire agreement and a decree signed by the de facto President dissolving all 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 cash support schemes covering the next 6 months. The Government estimates the overall cost of integrating refugees in Armenia to be around EUR 1 billion. Contributing to these efforts will require increased support and close coordination among donors, including the EU and its Member States. This is already happening on the ground among

³ Hereinafter 'Action Plan'

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

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 some challenges, for example, as the initially foreseen five-way leaders' level meeting planned at the European Political Community Summit in Granada on 5 October finally took place without the participation of Azerbaijan. In the meantime, Azerbaijan has stepped up engagement with Iran, Armenia's southern neighbour, including an agreement to build a railway line through Iran to link Azerbaijan to the exclave of the Autonomous Republic of Nakhchivan. 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 Criminal Court (ICC) who had issued an arrest warrant against Russian President Vladimir Putin.

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 5,080 in 2022, based on the criteria by the Development Assistance Committee of the Organisation for Economic Co-Operation and Development (OECD/DAC). Despite Armenia's economic growth of 12.6% in 2022, its weak connectivity and tensions with Azerbaijan undermine the prospect of a sustainable growth. The Armenian population is estimated at 2.963 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,

⁵ IMF: <https://www.imf.org/en/Countries/ARM>

⁶ *Ibid.*

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 three years: the COVID-19 pandemic; the conflict in and around Nagorno-Karabakh in 2020 and continued tensions since; post-conflict 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 military operation 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-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 initially estimated the cost of the integration of over 100,000 refugees, including housing/accommodation to be up to EUR 1 billion. In the short/medium term Armenia will provide a one-off payment (AMD 100,000) and monthly payments (AMD 50,000, with an additional AMD 50,000/month for November and December 2023) during the next 6 months. Within the remaining few months of 2023, Armenia will need to identify the financial means to cover the costs related to the needs of refugees for the year 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 that is under preparation. 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, for example. Historically, the share of the budget allocated to the health care sector has been low, with an average of 5.8% between 2014 and 2019, increasing to 7.25% in 2020 and 2021 due to COVID-19. Moreover, in 2021, 84.3% of health spending was paid out-of-pocket, making access to affordable health care impossible to the poorest groups of the population. 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

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

Government of Armenia also plans to increase pensions and minimum wages. However, the arrival of over 100 000 refugees from Nagorno-Karabakh 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 successfully 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 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 refugees from Nagorno-Karabakh.

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 MTAI is responsible for the school infrastructure policy.

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 Interior (MoI)**, which has recently integrated the rescue, police and migration services, will use the existing know how and structures to better address the refugee crisis.

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.

⁸ UNFPA situation report 2, 16 October 2023, [ARM CO SitRep#2 Oct 2023 Refugee Response \(unfpa.org\)](https://www.unfpa.org/sites/default/files/pub-pdf/ARM_CO_SitRep#2_Oct_2023_Refugee_Response)

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 refugees from Nagorno-Karabakh.

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 people from Nagorno-Karabakh 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 will remain 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 Government is developing a National Action Plan to respond to the short-, medium-, and long-term needs of the refugee population. In addition, as abovementioned, the UNHCR led the development of the Armenia Refugee Response Plan (RRP) in coordination with 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 Nagorno-Karabakh refugees 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

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.

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 people from Nagorno-Karabakh to Armenia, the Government of Armenia is preparing an Action Plan for the Support and Socio-Economic Integration of the Displaced Population of Nagorno-Karabakh, while at the same time taking ad – hoc measures to address the immediate needs. The overall objective of the Action Plan will be 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.

The Government aims to achieve this through short, medium, and long-term measures. To cover immediate needs, the Government has launched a one-off universal multipurpose cash payment in October 2023 to mitigate the economic hardship felt by the displaced population. Under this scheme, each refugee is entitled to a grant of AMD 100,000 (approximately EUR 235).

For the medium term, a new subsidy scheme has been put in place to complete the one-off payment of AMD 100,000 to help individuals and households finance costs related to housing, food, fuel and other necessities while searching for long-term employment opportunities in Armenia. Each household will be entitled to a monthly payment of AMD 50,000 (approximately EUR 118) for six months, as well as an additional AMD 50,000 for the months of November and December. This includes AMD 40,000 per month to live in temporary accommodation and 10,000 AMD to help pay for utilities. It is estimated that it will be necessary to allocate AMD 30 billion (approximately EUR 71 million) for the period from October 2023 to March 2024 to cover this scheme.

The majority of refugees are currently expecting 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 other Armenian citizens, while ensuring the socio-economic recovery of host communities. In the long term, the Action Plan for the Support and Socio-Economic Integration of the Displaced Population of Nagorno-Karabakh puts in place measures for the integration of refugees into Armenian education, pensions, and healthcare structures. This will be achieved by including these issues on the various strategies in the social sectors, in particular the education strategy (led by the Ministry of Education) the policy and programmatic work on social protection undertaken within the Ministry of Labor and Social Affairs and the various initiatives in the health sector by the Ministry of Health (including on health insurance). A crucial role will fall to the Ministry of Territorial Administration that is the leading ministry to work with *marzes* (provinces) and municipalities and is expected to also lead on housing issues. Finally, the Ministry of Interior that has after its recent creation, integrated the civil protection and migration services will use the existing know how and structures to better address the refugee crisis. Overall coordination will be ensured at the level of the two Deputy Prime Minister’s office 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 of lack of financial means remain a challenge.

As far as costing and financing is concerned, the sudden influx of refugees has not given enough time to the Government to fully evaluation the situation and how to respond to it. A detailed needs assessment focusing on longer term needs and solutions has not yet been undertaken and at this stage it is unclear whether one will be undertaken soon and the scope of it. Therefore, the extent of additional financial needs is unknown at this point of time and the Government has nevertheless taken the decision to address the needs, aid and make the necessary means available while reaching out to the international community to reach out for additional financing. 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 policy 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 largely 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 7.42% 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. Regarding trade, Armenia's exports went up by impressive 55% in real terms in 2022, well outpacing the 34% import growth. Consistent with the economic boom, the labour market witnessed a strong improvement in 2022, with an increase of the employment rate (although it remains generally low) rising to 53.2% 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. Headline inflation declined to 3.2 percent (y-o-y) in April 2023, mainly on account of base effects and rapidly easing food and transportation prices. But core inflation remains above headline at 4.3 percent (y-o-y) in April 2023. The fiscal position improved considerably in 2022 as robust economic activity and elevated inflation boosted revenues. The state budget revenues surged by 22.5% 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). Armenia recorded an impressive reduction of its public debt ratio in 2022. It decreased by 14 percentage points to 49.3% of GDP at the end of the year, which is the lowest level since 2015. The headline fiscal deficit narrowed to 2.1 percent of GDP in 2022 on account of robust revenues and spending under-execution.

Under the 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 it will be essential to incorporate this cost into the Medium-Term Expenditure Framework (MTEF) 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 International Monetary Fund (IMF) approved in May 2019. Notwithstanding various domestic and external shocks that hit the economy over the past three 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 12 June 2023. It concludes that the program is broadly on track. The review noted that macroeconomic policies need to prevent overheating of the economy in the short term, while supporting inclusive and resilient growth in the medium term. In order to achieve this: 1) building fiscal buffers should be a priority; 2) whilst decisive and pro-active monetary policy tightening has been successful in containing inflationary pressures, monetary policy needs to remain vigilant and data

dependent; and 3) to unlock Armenia's long-term growth potential, continued progress with implementation of structural reforms is needed.

However, the need for expenditure to address the influx of refugees from Nagorno-Karabakh will lead to a substantial increase in the debt to GDP ratio and this will be further complicated by the likely necessity to write off loans given to the de facto Government of Nagorno-Karabakh. It is possible that the Government may need to turn to the IMF for further assistance since the Ministry of Finance estimates the financial needs for Government to address the refugee crisis at USD 1 billion. There may also be risks with regards to the stability of the banking sector in view of the loans given to Nagorno-Karabakh.

In the May 2022 report, the IMF praises CBA's recent policy tightening as signalling its strong commitment to contain inflationary pressures and anchor inflation expectations. CBA ongoing supervisory initiatives would also help preserve financial stability. Fiscal space should be used prudently to mitigate the adverse impact of the war in Ukraine on the economy, while continuing to support medium-term fiscal consolidation efforts.

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's 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 percent 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 IMF¹⁰. With IMF technical assistance, the GoA is making progress toward identifying inefficient and regressive tax expenditures. In parallel, the authorities are also implementing reforms in revenue administration. The efforts

¹⁰ *Staff Report, First Review under Armenia Stand-By Arrangement, IMF, June 2023*

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 (SRC).

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 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 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 in order 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.

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 refugees from Nagorno-Karabakh, the **overall objective/impact** of this Action is: the socio-economic impact resulting from the mass displacement of people from Nagorno-Karabakh 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 recovery 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): Targeted measures to address the immediate needs of refugees are put in place.
- 2.1 Contributing to Outcome 2 (or Specific Objective 2): Measures to provide mid-term support to refugees with energy and housing costs are put in place.
- 3.1 Contributing to Outcome 3 (or Specific Objective 3): Measures that support the long-term socio-economic integration of refugees, in particular vulnerable groups including women, the elderly and people with disabilities, are designed.

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: Alleviating the immediate financial difficulties of refugees from Nagorno-Karabakh.
- 2.1.1 Contributing to Induced Output 1.2: Meeting medium-term housing and winterisation needs of the refugees.
- 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 1.1: **Targeted measures to address the immediate needs of refugees are put in place.**

To address the immediate needs of the refugees from Nagorno-Karabakh the Government has 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. The programme is aimed at providing means to the refugees to purchase essential items required for settling in Armenia. According to Government estimations over 81,000 people have received the one-time payment as of 13 October 2023. In addition, on 23 October 2023, the Government has 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 2.1: Measures to provide mid-term support to refugees with energy and housing costs are put in place.

Needs assessment conducted by the Government of Armenia and the humanitarian actors identified that for the initial stage to be able to settle in Armenia the refugees would need to have 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 concern¹¹. With the upcoming winter, including possibly harsh weather conditions towards the end of 2023 and at the beginning of 2024, access to winter-specific assistance, including ability to pay utility costs is of a prime concern for the refugees.

To address the above-mentioned needs the Government has announced in October 2023 a six-month rent and utilities cost compensation (AMD 40,000 plus AMD 10,000 per person) programme¹², with double payments for the months of November and December. Starting from October 2023 for a period of 6 months, refugees from Nagorno-Karabakh, with the exception of those owning residential property in Armenia, will receive payment from the Government of Armenia for renting apartments and for paying utility expenses of which gas and electricity costs have the largest share. According to the government's decision, this support will be provided for the next 6 months. 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 month for accessing job market and engaging in economic activity.

Activities related to Output 3.1: Steps taken to design measures that support the long-term socio-economic integration of refugees, in particular vulnerable groups.

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 group, 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

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

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

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.

The activities under output 3.1 will focus on supporting the efforts of the Government of Armenia to ensure inclusion of the refugees, among those the most vulnerable groups – the elderly, children without parental care, people with disabilities, victims of domestic violence, among other groups, into the public services – education, health and social assistance. 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 refugees from Nagorno-Karabakh, 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 refugees from Nagorno-Karabakh 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 segregated 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 refugees from Nagorno-Karabakh.

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 displaced from Nagorno-Karabakh 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 refugees from Nagorno-Karabakh 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.
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 refugees from Nagorno-Karabakh will remain in Armenia and the Government will remain committed to integration of the refugees from Nagorno-Karabakh 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 refugees from Nagorno-Karabakh, 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 refugees from Nagorno-Karabakh 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 of 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	The socio-economic impact resulting from the mass displacement of people from Nagorno-Karabakh is mitigated.	National Action Plan of the Government of Armenia is adopted. Government adopts various measures to support the refugees.	N/A 0 (2023)	Government adopted National Action Plan on addressing the needs of refugees from Nagorno-Karabakh. 3	<i>Government report on adopted measures related to National Action Plan.</i> <i>Government support to refugees included in the Supplementary Budget for 2023 and 2024.</i>

<p>Expected Outcomes of the policy</p>	<p>1. The socio-economic hardship, with a special focus on supporting refugees with essential needs, including food, is addressed.</p>	<p>1.1 Adoption of a Government programme on multi-purpose cash assistance to meet the immediate needs of the refugees from Nagorno-Karabakh.</p> <p>1.2 Share of refugees receiving one-time multi-purpose cash assistance of AMD 100,000 disaggregated by sex; disaggregated by households led by females.</p> <p>1.3 Adoption of a Government programme on 2-months multi-purpose cash assistance to meet the immediate needs of refugees from Nagorno-Karabakh.</p> <p>1.4 Share of refugees receiving 2-months multi-purpose cash assistance of AMD 50,000, disaggregated by sex; disaggregated by households led by females.</p>	<p>1.1 yes (2023)</p> <p>1.2 0</p> <p>1.3 No programme</p> <p>1.4 0</p>	<p>1.1 yes (2024)</p> <p>1.2 to be defined in consultations with the Government</p> <p>1.3 1 Government programme adopted</p> <p>1.4 to be defined in consultations with the Government</p>	<p><i>Government report on adopted measures related to National Action Plan.</i></p> <p><i>Government report on implementation of respective programmes on multi-purpose cash support.</i></p>
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	<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 Adoption of a Government programme on cash support for accommodation and utility expenses of the refugees</p> <p>2.2 Share of refugees receiving 6 months assistance of AMD 40,000 for rent compensation (disaggregated by sex; disaggregated by households led by females)</p> <p>2.3 Share of refugees receiving 6 months assistance of AMD 10,000 to cover utility bills (disaggregated by sex; disaggregated by households led by females)</p>	<p>2.1 yes</p> <p>2.2 0</p> <p>2.3 0</p>	<p>2.1 yes</p> <p>2.2 to be defined in consultations with the Government</p> <p>2.3 to be defined in consultations with the Government</p>	<p><i>Government report on adopted measures related to National Action Plan.</i></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 refugee children integrated into the education system, including tertiary</p> <p>3.2 Share of pension age refugees receiving state pension</p> <p>3.3 Share of refugees using the primary healthcare services</p> <p>3.4 Share of refugees benefiting from Government employment programmes</p> <p>All disaggregated by sex.</p>	<p>3.1 0</p> <p>3.2 0</p> <p>3.3 0</p> <p>3.4 0</p>	<p>3.1 to be defined in consultations with the Government</p> <p>3.2 to be defined in consultations with the Government</p> <p>3.3 to be defined in consultations with the Government</p> <p>3.4 to be defined in consultations with the Government</p>	<p><i>Government report on adopted measures related to National 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>

Induced Outputs	<p>1.1 Targeted measures to address the immediate needs of refugees are put in place.</p>	<p>1.1.1 Adoption of a Government programme on cash assistance to meet the immediate needs of the refugees</p> <p>1.1.2. Share of refugees receiving one-time multi-purpose cash assistance of AMD 100,000 (disaggregated by sex; disaggregated by households led by females)</p> <p>1.1.3 Share of refugees receiving 2 months multi-purpose cash assistance of AMD 50,000, disaggregated by sex; disaggregated by households led by females</p>	<p>1.1.1 yes (2023)</p> <p>1.1.2 0</p> <p>1.1.3 0</p>	<p>1.1.1 yes (2024)</p> <p>1.1.2 to be defined in consultations with the Government</p> <p>1.1.3 to be defined in consultations with the Government</p>	<p><i>Government report on adopted measures related to National Action Plan.</i></p>
	<p>2.1 Measures to provide mid-term support to refugees with energy and housing costs are put in place.</p>	<p>2.1.1 Adoption of a Government programme on cash support for accommodation and utility expenses</p> <p>2.1.2 Share of refugees receiving 6 months assistance of AMD 40,000 for rent compensation (disaggregated by sex; disaggregated by households led by females)</p> <p>2.1.3 Share of refugees receiving 6 months assistance of AMD 10,000 to cover utility bills</p>	<p>2.1.1 yes</p> <p>2.1.2 0</p> <p>2.1.3 0</p>	<p>2.1.1 yes</p> <p>2.1.2 to be defined in consultations with the Government</p> <p>2.1.3 to be defined in consultations with the Government</p>	<p><i>Government report on adopted measures related to National Action Plan.</i></p>

	3.1 Measures that support the long-term socio-economic integration of refugees, in particular vulnerable groups including women, the elderly and people with disabilities, are designed.	3.1.1 Share of refugee children integrated into the education system, including tertiary 3.1.2 Share of pension age refugees receiving state pension 3.1.3 Share of refugees using the primary healthcare services 3.1.4 Share of refugees benefiting from Government employment programmes	3.1.1 0 3.1.2 0 3.1.3 0 3.1.4 0	3.1.1 to be defined in consultations with the Government 3.1.2 to be defined in consultations with the Government 3.1.3 to be defined in consultations with the Government 3.1.4 to be defined in consultations with the Government	<i>Government report on adopted measures related to National Action Plan.</i>
Direct Outputs	1.1.1 Alleviate the immediate financial difficulties of refugees from Nagorno-Karabakh are alleviated.	1.1.1.1 Adoption of a Government programme on cash assistance to meet the immediate needs of the refugees 1.1.1.2. Share of refugees receiving one-time multi-purpose cash assistance of AMD 100,000 1.1.1.3 share of refugees receiving 2 months multi-purpose cash assistance of AMD 50,000, disaggregated by sex; disaggregated by households led by females	1.1.1.1 yes (2023) 1.1.1.2 0 1.1.1.3 0	1.1.1.1 yes (2024) 1.1.1.2 to be defined in consultations with the Government 1.1.1.3 to be defined in consultations with the Government	<i>Government report on adopted measures related to National Action Plan.</i>

	2.1.1 Meeting medium-term housing and winterisation needs of the refugees.	2.1.1.1 Adoption of a Government programme on cash support for accommodation and utility expenses	2.1.1.1 yes	2.1.1.1 yes	<i>Government report on adopted measures related to National Action Plan.</i>
		2.1.1.2 Share of refugees receiving 6 months assistance of AMD 40,000 for rent compensation	2.1.1.2 0	2.1.1.2 to be defined in consultations with the Government	
		2.1.1.3 Share of refugees receiving 6 months assistance of AMD 10,000 to cover utility bills	2.1.1.3 0	2.1.1.3 to be defined in consultations with the Government	

	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.	3.1.1.1 Share of refugee children integrated into the education system, including tertiary	3.1.1.1 0	3.1.1.1 to be defined in consultations with the Government	<i>Government report on adopted measures related to National Action Plan.</i>
		3.1.1.2 Share of pension age refugees receiving state pension	3.1.1.2 0	3.1.1.2 to be defined in consultations with the Government	
		3.1.1.3 Share of refugees using the primary healthcare services	3.1.1.3 0	3.1.1.3 to be defined in consultations with the Government	
		3.1.1.4 Share of refugees benefiting from Government employment programmes	3.1.1.4 0	3.1.1.4 to be defined in consultations with the Government	

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 30 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 15 000 000. 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 Armenians from Nagorno-Karabakh 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 refugees from Nagorno-Karabakh 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) 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 two fixed tranches indicatively expected to be disbursed in Q1 2024 (EUR 13,500,000 million) and in Q3 2024 (EUR 1,500,000 million).

4.4. Indicative Budget

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

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, 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 refugees from Nagorno-Karabakh.

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.