



ANNEX 3

of the Commission Implementing Decision on the Annual Action Programme 2017 of the Republic of Armenia

Action Document for the Armenia Technical Cooperation Facility

1. Title/basic act/ CRIS number	Armenia Technical Cooperation Facility CRIS number: 2017 / 040-523 financed under European Neighbourhood Instrument	
2. Zone benefiting from the action/location	Armenia The action shall be carried out at the following location: Yerevan, Armenia	
3. Programming document	Armenia Single Support Framework 2017-2020	
4. Sector of concentration/ thematic area	Economic Governance	DEV. Aid: YES
5. Amounts concerned	Total estimated cost: EUR 7,500,000 Total amount of EU budget contribution: EUR 7,500,000 The contribution is for an amount of EUR 7,500,000 from the general budget of the European Union for 2018 subject to the availability of appropriations following the adoption of the relevant budget.	
6. Aid modality(ies) and implementation modality(ies)	Project Modality Direct management: <ul style="list-style-type: none"> • grants – calls for proposals • grants – direct award • procurement of services Indirect management	
7 DAC code(s)	15110 – Public Sector Policy and Administrative Management 15111 – Public Finance Management	

	24010 – Financial Policy and administrative management 25010 – Business support services and institutions			
8. Markers	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	■
	Aid to environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	■	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	■	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	9. Global Public Goods and Challenges (GPGC) thematic flagships	N/A		

SUMMARY

This Technical Cooperation Facility (TCF) has been developed jointly with the World Bank (WB) and the European Bank for Reconstruction and Development (EBRD). It is based on the current state of cooperation with those organisations in the country and builds on EU ongoing cooperation in Armenia. Other organisations are also mentioned as part of the effort to better coordinate EU interventions at regional and national level. Those organisations are also considered as possible implementing partners.

The areas of intervention proposed are in line with the sectors mentioned in the Single Support Framework (SSF) and mainly reflect the expertise of the different organisations mentioned below but as well based on the different Agreements signed between the EU and Armenia (mainly Armenia EU Comprehensive and Enhanced Partnership Agreement CEPA).

The areas are clustered in four pillars due to their interlinkages and in order to ensure the highest complementarity/ division of labour amongst the different implementing partners. The pillars also reflect the different political priorities (Global strategy, the conclusion of the Eastern Partnership Summit in Riga in 2015 and in particular the 2020 deliverables, and the CEPA).

I. Economic governance: Attracting Public and Private Investment

- Support to Public Investment and Debt Management
- Universal Public Private Partnership (PPP) Law and Implementation
- Implementation of the new Public Procurement law
- Support to Local Currency and Capital Market Development

II. Business and investment climate:

- Support to Regulatory Impact Assessment (RIA)
- Establishment of “Business Ombudsman” functionalities
- Support business climate eco-system for SMEs
- Finalization of the risk-based inspection reform

III. Trade and Market opportunities/access

- Intellectual Property Rights
- Customs
- Quality infrastructure (QI)

IV. Connectivity and energy

- Aviation - support implementation of the European Common Aviation Area
- Energy efficiency and renewable energy market development

In addition to supporting the areas mentioned above, other areas considered necessary for the implementation of the new Comprehensive and Enhanced Cooperation Agreement and the Partnership Priorities with Armenia are eligible under in the action through a **Twinning facility**.

The modalities considered for this action are **Twinning instrument**, **PAGODA** with international organisations and **procurement** for Technical Assistance (service contracts).

1 CONTEXT

1.1 Country context

During the last few years Armenia’s overall economic performance has been worsening with the lowest point in 2016. Armenia’s economic performance has worsened from 7.1 per cent GDP growth rate in 2012 to expected 2.4 per cent in 2016, according to the IMF¹. This was largely due to the economic crisis in Russia and its effects on Armenia. The accession to the Eurasian Economic Union (EEU) in January 2015 so far has not brought to Armenia the expected economic benefits. The outlook is more favourable from 2018 on as the recovery in Russia strengthens and budgetary pressures ease. The unemployment rate in Armenia is expected to increase from 17.7 per cent in 2015 to 18.0 per cent in 2017². The unemployment and more generally the lack of economic opportunities have contributed to significant outflows of economically active population. Today the key social challenges that Armenia faces are – unemployment (17.7 per cent in 2015); poverty (30 per cent in 2015); and

¹ <http://www.imf.org/external/pubs/ft/scr/2016/cr16380.pdf>

² <http://www.imf.org/external/pubs/ft/weo/2016/02/pdf/text.pdf>

emigration (2.5 per cent of the total population annually). Thus, creating and sustaining quality jobs is the key imperative to the economy of the country.

1.1.1 Public Policy Assessment and EU Policy Framework

Currently reforms are implemented in the framework of the Armenia Development Strategy (ADS) 2014-2025 that was adopted by the Government in March 2014. The ADS states that improved quality of Public Administration (PA) plays "*a key role in the social and economic development of the country*". It also includes a specific chapter on establishing and strengthening a modern system of public administration, with a comprehensive list of reforms in the fields of electronic administration, inspection systems, local self-governance, public finance management, public investment, civil service, judicial reform and anti-corruption, business and investment climate, among others.

While facing important macroeconomic challenges over the past years with high risk of currency depreciation (influenced by weaker regional currencies), lower remittances and exports, a high current account deficit and dollarization, Armenia has still made some progress in structural reforms. Armenia's average transition indicator score is comparable to that of the EU candidate countries of south-eastern Europe, reflecting progress over the years in privatisation and price liberalisation. The government increased **transparency of public services** by introducing e-based systems, including e-government and e-signature, and made significant progress on e-procurement.

The government adopted a **new tax code in 2016** to reduce tax privileges and high tax compliance costs and to redesign the tax system to foster growth. The new compulsory funded **pension** pillar has been set up. Armenia also showed its willingness to open its market in some sectors. For instance, in the **aviation sector** some 15 bilateral aviation agreements, including the **Comprehensive Air Transport Agreement** (integration of Armenia in the EU Common Aviation Area), are being negotiated and can attract European low-cost carriers, boosting the hospitality industry and tourism revenues. In the **energy sector**, Armenia has opened its small hydropower station to private operators and is now enabling the environment to develop photovoltaic power station.

Nevertheless, Armenia still needs to implement and/or enforce many regulatory reforms in the areas of **public finance management** and **business and investment climate**.

EU-Armenia Policy framework

EU relations with Armenia are still based on the EU-Armenia Partnership and Cooperation Agreement, which was signed in 1996 and entered into force in 1999. The Agreement provides for wide-ranging cooperation in the areas of political dialogue, trade, investment, economy, law making and culture. Armenia was preparing for signing the Association Agreement / Deep and Comprehensive Free Trade Area (AA/DCFTA) with the EU. However, in 2013, Armenia decided not to sign this agreement, and it took a turn to the Eurasian Economic Union (EEU). The Accession Treaty to EEU was signed by Armenia in October 2014. In January 2015, Armenia joined the EEU.

Since 2014 under the current Single Support Framework (SSF), the EU has committed more than 77 Million Euros to Public Administration Reforms and support to Private Sector Development

From AAP 2014 to AAP 2016, the EU is funding projects in various areas Public administration (PFM, e-governance, Civil service reforms) 30M euros and Private sector (SME support, VET, Agriculture) 47M euro.

Following the Joint Declaration of the Eastern Partnership Countries adopted in Riga in May 2015. On 21st May 2017, Armenia and European Union initialed the Armenia-EU Comprehensive and Enhanced Partnership Agreement. It will strengthen the political dialogue and set a solid basis for the continuation of economic and social reforms. The above-mentioned documents set out the following priorities that will determine the Single Support Framework for Armenia from 2017-2020 that will mainly cover the strengthening institutions and good governance; economic development and market opportunities; connectivity, energy efficiency, environment and climate action; and Mobility and people-to-people contacts.

1.1.2 Stakeholder analysis

It is of key importance to have the Prime Minister Office commitment to the proposed actions, in particular to ensure arbitrage between the different sectoral policies and ensure implementation of the legal changes. Key stakeholders will also include the Centre for Strategic Initiatives that coordinate reforms under the leadership of the deputy Prime Minister. The Ministry of Finance and State Revenue Committee will play a key role in the reforms targeted under economic governance pillar and business and investment climate pillar; the Ministry of International Economic Integration and Reforms will play its role of coordination for the reforms targeting business and investment climate; The Central Bank of Armenia is a leading institution in the local currency and capital market development; the Ministry of Energy Infrastructures and Natural Resource and the General Department of Civil Aviation of the Republic of Armenia will be mainly involved in the implementation of the pillar four.

To ensure success of the action, donor coordination will be essential, in particular with the International Financial Institutions, OECD, GIZ and SIGMA.

1.1.3 Priority areas for support/problem analysis

This TCF will cover areas under sector 1, 2 and 3 of the new SSF 2017-2020, respectively, Economic development and market opportunities; Strengthening institutions and good governance; Connectivity, energy and climate action. This TCF will also cover the implementation of the trade related chapters of the new Framework Agreement.

Economic Governance

Public Finance Management has made substantial progress over the last couple of years. From strategies to legal acts, the Armenian authorities have adopted the majority of the tools to enable them to manage adequately their public finance.

Armenian authorities are still lagging behind in some key areas related to PFM. One of the main issues over the last couple of years has been the rapid increase of the external public debt. The lack of a proper debt management strategy and its implementation has led to an increase pressure on debt sustainability.

Until very recently, Armenian authorities have shown very little willingness to prioritize their key infrastructure projects in a single pipeline. This is even more important as the EU has provided significant support to Armenian public infrastructures over the last decade mainly through its Neighbourhood Investment Facility. Therefore there is an urgent need to support the capacity of the Government **Public Debt Management** and **Public Investment Management**.

Linked to the above, **Public Procurement** (PP) has an important role to play to ensure a more efficient usage of public resources, and improve investment climate. Although, the PP legislative framework is being upgraded and is getting more robust, **Public Private Partnership** and concessions are not subject to a dedicated single legal act. Relevant provisions are scattered across various sector specific laws and regulations. The absence of a clear legal and regulatory framework is an obstacle to structuring and funding projects, although notable achievements have been made implementing PPP arrangements, particularly with respect to water companies, Zvartnots International Airport and Hay Post.

Market opportunities - Business and investment climate

The private sector plays an increasingly important role in Armenia's economy – it contributes to more than 80 per cent of GDP and accounts for about 80 per cent of total employment. Therefore, a *favourable business environment and support to industries with high growth potential and high value-added* is the key to private sector growth along with support to formal activities and employment due to the high level of informal economy and employment (50% of total employment). Armenia can be credited for supporting it through various policy improvements. As to the ease of doing business, in 2016 Armenia ranked 38th out of 190 countries, according to the World Bank's Doing Business report. Similarly, according to the World Economic Forum's Global Competitiveness rankings, Armenia improved to the 79th place in 2016-2017 out of 138 countries surveyed. However, these achievements have not translated into substantial increases in business activity or in investment due to several systemic constraints.

The Armenian authorities continue to make efforts to upgrade commercial, tax and financial legislation in order to improve the business environment. Starting a new business has been made easier. However, significant gaps in the legal and regulatory framework remain. In addition, as is often the case in early transition countries, implementation of the law by courts and officials is uneven and affected by corruption³. A lack of capacity and funding, the quasi disappearance of the labour inspection, and the absence of digitalisation or low level of e-sophistication in some areas (e.g. enrolment in higher education, environment related permits, lack of coordination and collaboration across agencies has led to poor integration of systems and limited exchange of data, etc.)⁴ also constitute impediments to an effective application of laws and regulations.

Despite significant progress in the past, the business environment in Armenia remains uneven.

³ Corruption Perception Index 2016 of Transparency International: in 2016, Armenia received 33 points and held 113th place among 176 countries.

⁴ Based on current status report on E-Services Interoperability Framework and Building Policy Analysis, 2015, Armenia.

According to the 2012-2013 Business Environment and Enterprise Performance Survey (BEEPS), top obstacles faced by Armenian firms include **access to finance, tax administration** and political instability. Young firms complained heavily about **customs and trade regulations**. **Unfair competition** is one of the core constraints of growth in Armenia as are poor working conditions and labour standards. In this context, the most problematic factors are unfair **tax and customs administration and inspection**; weak regulation of market competition; insufficient **justice** independence and **corruption**.

In 2015, Armenia has implemented a Regulatory Guillotine Programme, aimed at reducing administrative costs and the regulatory burden on businesses, but this seems not sufficient to ease of doing business. Nevertheless a proper **Regulatory Impact Assessment** is not yet functional.

In 2016, more efforts have been put to create **Public Private Dialogue** in order to address the constraints to business operations, nevertheless companies are still under-represented in those dialogues, and disputes are still often resolved through political connections, judiciary system or worse, corruption. Over the last two years, there has been an attempt to establish a business Ombudsman that would be revived as well as other Alternative Dispute Resolutions (ADR) mechanisms would be developed.

In terms of **access to finance**, despite all efforts made by development partners through concessional loans to commercial banks, **capital markets** still remain underdeveloped especially in terms of legislation, much remains to be done to establish a robust legal infrastructure for capital markets and derivatives transactions.

In terms of **trade**, Armenia has, to a limited extent, benefitted from its accession to the Eurasian Economic Union. Many constraints concern customs procedures, logistics and to a lesser extent technical barriers to trade. The EU is still trying to support Armenian exporters in entering the EU market through the promotion of GSP+ as well as the collaboration with EU chambers of commerce but the main constraints are the quality and the quantity. Armenian producers are still lagging behind in terms of compliance with technical regulations which hampers the EU objective to promote the internationalisation of SMEs. Therefore, more effort is required to support the development of the **quality infrastructure/system**. At the same time, it is important also to ensure the proper implementation of the recently initialled EU- Armenia Framework Agreement and more specifically the trade related chapters. A special focus will be provided to the implementation of the provisions under the **Intellectual Property Rights (IPR)** chapter.

Connectivity and energy

Over the last 5 years, the EU has invested more than 39 M euro in transport (including public transport and border crossing infrastructure) and 20 M euro in energy projects through the Neighbourhood Investment Fund (NIF).

In the **transport sector** the EU has provided support for the development of regional road network (TEN-T), notably to the North-South corridor. Further support to road infrastructure is already envisaged under the current NIF. Also, the WB jointly with the EU is currently providing support to EaP countries to prioritize transport infrastructure projects. Besides road transport, the air transport has been high in the Armenian Government agenda with the current

negotiation on the Comprehensive Air Transport Agreement which will require support for its implementation.

The **energy sector** in Armenia has a potential to bolster Armenia’s resilience and economic development as well as reduce energy dependence. In the energy sector, the Government recognises the need to enhance energy efficiency. An improvement of the existing legal and regulatory framework is a pre-condition to a successful energy efficiency program.

There is a substantial potential for renewable energy development in Armenia in wind, solar, hydro and geothermal resources as an alternative to traditional sources of energy (Gas and Nuclear) that are still monopolizing the entire sector.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Corruption in the judiciary and ineffective system; Independence of judiciary; Law enforcement Perception of corruption remains very high; High profile cases of corruption are not tackled; The apparatus against anti-corruption (Prosecutor General, Investigative Committee, Police, Courts, Ethics Commission for High Public Officials) is not independent.	H	Enhancing dialogue around Justice BS operations and other donors' support (WB, CoE, EU technical assistance); Supporting coordination mechanisms among actors within the criminal justice chain; Supporting accountability mechanisms.
Ineffective Civil Service Policy (recruitment, promotion, mobility and training).	M	An EU programme to support Civil Service Reforms will start in 2017.
Macro-economic stability Over exposure to foreign debt; Under spending in capital projects; High dollarisation of the economy.	M	Improvement of eco-system for thriving SMEs; Deepening domestic capital market; Increasing efficiency and effectiveness of public investment; Ensuring adequate external borrowing strategy, in particular of concessional financing from various donors.
Public finance management Public procurement, Audit, budgetary programming.	M	Multiple EU support to be implemented with a focus on enforcement.
Assumptions		
- There is strong and continuous political commitment to the implementation of key economic reforms which started in 2016 with the appointment of a reform oriented Prime		

Minister.

- Civil service reforms contribute to the professionalization of government staff and allow attracting competences to implement targeted reforms under this TCF.
- Performance monitoring indicators will be discussed and agreed with key stakeholders.

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

A high fragmentation of EU technical assistance in different related reform areas did not allow for optimal coordination of different support and to create the synergies required to have an optimal policy dialogue with all development partners in Armenia. In some key areas of reforms unanticipated requirements to fast track some of those reforms led also to a standstill in the implementation of some budget support conditionality which affected the effectiveness of this instrument. A flexible tool to fill gaps based on ad hoc needs, capable to mobilize rapidly high level expertise, is also something that was missing from the EU cooperation instruments.

Another related lesson learnt concerns the cross-conditionality of different development partner's budget support which could be resolved through a more coordination-driven technical assistance.

It is also important to underline that many of the technical cooperation projects in the past were focusing on legal/policy and institutional frameworks but the institutional capacity development was often failing in ensuring proper enforcement of those reforms. This TCF should mainly focus on concrete enforcement of the legal and policy frameworks.

3.2 Complementarity, synergy and donor coordination

This TCF will complement (bridge gaps) ongoing EU support under previous SSF covering areas that have not been covered by previous Annual Action Plan (including budget support areas) as well as other regional initiatives with OECD for instance. This TCF will also highly contribute to the improvement of donor coordination by working jointly with two leading and reform oriented development partners in Armenia (WB and EBRD), complementing their respective financial cooperation instruments such as lending facilities and other budget support operations.

3.3 Cross-cutting issues

All areas identified in this TCF are contributing directly to **trade development**, good governance and **Anti-corruption reforms**. Other cross-cutting areas of intervention include Statistics and in particular the need to have sex disaggregated data, which will contribute towards ensuring Gender Equality.

The proposed programme will also contribute, as well as benefit from the ongoing e-Governance and public administration reforms in Armenia, in particular the creation of interoperability system and further digitalisation of government services.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The general objective of this Action is to support key economic reforms in areas that have been identified as economic growth constraints or opportunities.

The specific objectives are to:

- (i) improve the Economic Governance in order to manage and attract Public and Private Investment;
- (ii) improve the Business and investment climate for daily business operations;
- (iii) improve Trade and Market opportunities/access for Armenian businesses; and
- (iv) enhance connectivity and energy efficiency.

In addition to supporting the areas mentioned above, other areas considered necessary for the implementation of the new Comprehensive and Enhanced Cooperation Agreement and the Partnership Priorities with Armenia are eligible under in the action through a Twinning facility.

4.2 Main activities

Component 1: Economic governance: Attracting Public and Private Investment

1. Support to Public Investment and Debt Management

The EU has been providing assistance to this area with programmes coming to an end in 2017. The action will support Public Investment and Debt Management either through partners mentioned under this project or through other Technical Assistance (TA) under direct management. In this regards, the action will complement support to Public Private Partnership and Public Procurement activities. It will support the implementation of the public debt management strategy (MTDS) with the introduction of a methodology for the Central Bank of Armenia and Standard Operation Procedures (SOP) for Public investment projects. The action will address concern about the fiscal space and the need to prioritize Government investment into a single pipeline. Specific activities may include, but not be limited to: Technical Assistance (TA) and policy dialogue to converge the technical streams of assistance coming from the IMF and other partners to ensure a technically coherent and robust legal and regulatory environment in which to implement the MTDS and the to-be-revised Fiscal Rule; TA and policy dialogue to carry forward the emerging recommendations of previous EU assistance on public investment management (PIM) and project prioritization; and the development of database-centred prioritization solutions along with the necessary legal and regulatory mechanisms to anchor them, and capacity building to institutionalize them.

2. Universal Public Private Partnership (PPP) Law and Implementation

Over the last year the EU and EBRD have advocated to introduce a PPP framework as part of their effort to promote foreign investment and transparency in the public investment sector. The PPP framework is highly fragmented between line ministries and requires a common approach. Activities will focus on drafting a universal PPP law and a secondary legislation, supporting the establishment of a PPP unit in order to ensure PPP

Project preparation and selection. The whole process will be embedded in the general Public Investment Management framework.

3. Implementation of the new Public Procurement law

The EU has provided support to this sector both through SIGMA/OECD and budget support. The activities of the action will complement the implementation of the law with the introduction of e-tools and procedures in line with the WTO GPA and the EU-Armenia Comprehensive and Enhanced Partnership Agreement. EBRD will support the implementation of an e-procurement system, while other TA might cover other activities in coordination with SIGMA. A top up of ongoing support could also be envisaged.

4. Support to Local Currency and Capital Market Development

Since 2011, EBRD has been working with the Central Bank of Armenia (CBA) on reforming the local capital market. A high level steering committee involving all major stakeholders is active and many reforms have been already implemented. The activities of the action will contribute to the implementation of the CBA Action Plan (development of interbank repo market, the derivative market, bonds market and security trading, etc.) and will build on activities aiming at improving SME access to capital markets.

Component 2: Business and investment climate:

1. Support to Regulatory Impact Assessment (RIA)

RIA was initially supported by EU, then building on EU programme output, a multi-donor group helped the Government implement a guillotine exercise on the overall regulatory framework. While the WB together with EU and member states support, was able to leverage some ‘quick wins’ from the initial guillotine exercise, to date the RIA is still not fully functional as an institution, and there is still a need for significant regulatory simplification and a the lack of an institutional champion to push for reforms. Activities would cover a broad range of ministries and regulatory bodies and will also contribute to the institutionalisation of Public Private Dialogue, making it more effective. Taking into account its involvement in the previous multi-donor group, WB is considered as possible implementer for this task.

2. Establishment of “Business Ombudsman” functionalities

EBRD and EU have been engaged jointly with the Government on the possibilities to develop those functionalities. In 2015-2016 the EBRD supported the Government in the development of law on a Business Ombudsman. Unfortunately, the process was put on hold as some legal and financial constraints appeared. Activities will build on the cooperation between the EBRD and the Government and will be highly complementary to the overall development of Public Private Dialogue receiving support from EU (Annual Action Plan 2014 and East-Invest 2).

3. Improve the eco-system for SMEs

The EU has been providing support to SMEs in various programs and through the SME Finance & Advice Facility being implemented by EBRD. As a complement to these past and ongoing efforts, this “eco-system” component will focus on selected regulatory functionalities, institutional and market practices, and it will target legal and regulatory reforms needed to improve business environment and to help level the playing field. Key areas of focus may include the following: (a) improved implementation of Armenia’s

insolvency regime with emphasis on making reorganization work over liquidation, and related market practices at the deal initiation stage (e.g. evaluation of risk on going-concern basis, inter-creditor collateral agreements, etc.); (b) strengthening of corporate governance with emphasis on shareholder rights (both the legal framework and corporate level practice); and (c) should the Armenian Authorities demonstrate consistent commitment to level the playing field, further support the competition authority/anti-monopoly effort.

4. Finalization of the risk-based inspection reform

WB (IFC) and EBRD have been supporting the reforms for the last four years. Although some progress has been made, there is still a lack of political will to enforce reforms. Inspections from different State bodies are considered as source of corruption and harassment for businesses. Should the Authorities commit to finalize the reform in a reasonable time-frame (say 24 months), resources may be needed to (a) consider appropriate adjustments in light of experience garnered to date, and then (b) fully implement the agreed institutional changes and their enforcement: these could include creation of and secretariat services to a transparent public-private dialogue process, analytical support to measure the benefit from reduction of inspection burden, and exploitation of synergies with the Phase II IFC Investment Climate Advisory Services project and re-establish State inspections on a sounder basis. More public private dialogue should be considered around those reforms, and the involvement of the EU in those reforms could trigger more political willingness to implement changes.

Component 3: Trade and Market opportunities/access

1. Intellectual Property Rights

The EU supported the Armenian Intellectual property rights agency in the past and even conducted an assessment of the Geographical Indication (GI) system in Armenia in view of the implementation of the DCFTA. With the signature of the Comprehensive and Enhanced Framework Agreement, the EU pledged to support Armenian authorities to implement the provision related to the protection of EU GI in Armenia. Activities will mainly concern the implementation of an action plan towards a phasing out of the use of GI by different Armenian companies. A specific TA or twinning could be considered for the implementation of the activities.

2. Customs

The EU has provided in the past substantial support to Customs reforms through twinning projects and budget support. With Armenia joining the Eurasian Economic Union (EEU), EU support to the sector for the last three years has been targeting the creation on a custom/ border single window. The EU approached the custom reforms through two different angles, e-governance and Public Private Dialogue. There are still key reforms that need to be implemented and procedures to be enforced. Customs is considered as the main impediment for business development in the country. Activities would be linked to the inspection reforms and the development of e-governance based procedures as well as linked to the implementation of the WTO MC8 Trade Facilitation Agreement (TFA). A specific TA or twinning could be considered for the implementation of the activities.

3. Quality infrastructure (QI) and system

Following the decision of Armenia to join the Eurasian Economic Union (EEU) in 2013, the EU had stopped its support to the sector. The WB has been providing support to the QI system over the last three years without much success. The main impediment for Armenian companies is the lack of capacity to upgrade their production process in order to respond to the EU market requirement. Activities would complement a regional project with the International Trade Center (ITC/WTO) as well as other initiatives implemented at regional level and work mainly on the bottlenecks to export. A specific TA or twinning could be considered or a top up of a regional project for the implementation of the activities.

Component 4: Connectivity and energy

1. Air transport - support to the integration in the ECAA

The signature of the Comprehensive Air Transport Agreement related to the integration of Armenia in the European Common Aviation Area (ECAA) will require support for its implementation. This might cover various areas such as economic regulation, social aspects and consumer protection activities, as well as Airworthiness, Air Crew, Air Operations, ATM/ANS, Aerodromes and Safety Management. The support can be topping up a regional project implemented by European Aviation Safety Agency (EASA) or complement through a TA or twinning project.

2. Energy efficiency and renewable energy market development

The WB is one of the most active development partners in the energy sector in Armenia in terms of policy reforms as well as infrastructure development. In tight coordination with the EU4Energy regional programme, the WB would provide assistance in a range of areas, possibly including but not limited to: building increased capacity to prepare, finance, participate, and implement energy efficiency projects; building and increased capacity of energy efficiency market intermediaries to design and test financial models and facilities to implement energy efficiency projects especially for residential buildings; design and launch a flagship energy-efficient multi-family residential programme in a pilot region; and TA to set standards and instruments for measuring energy efficiency performance.

4.3 Intervention logic

This Technical Cooperation Facility (TCF) has been developed jointly with the World Bank the European Bank for Reconstruction and Development and is based on the current state of cooperation with those organisations and the EU in the country.

The World Bank, as a potential partner in the following areas, offers a long track-record of sustained partnership with relevant government bodies as well as a deep intellectual platform developed through sector analyses: WB has worked with the Government of Armenia for more than 21 years on a steadily more sophisticated agenda of macrofiscal reforms, including debt management (action 1 of component 1); for the last 8 years, a series of policy-based WB lending has advanced the reform agenda on regulatory simplification and inspection reform (actions 1 and 4 of component 2); and WB has pioneered the first large-scale entirely financially self-sustaining model for energy efficiency upgrades to public buildings, one which is notable for requiring no cross-subsidy from Government or donors in the form of grant funds (action 2 of component 4).

The European Bank for Reconstruction and Development has set its main priorities in its 2015 Strategy for Armenia which are to: (i) Improve access to finance through the development of capital markets and promoting local currency financing; (ii) Enhance private sector competitiveness by strengthening capacity, increasing corporate transparency and improving the business environment through policy dialogue; (iii) Develop sustainable and commercialised public utilities. The priorities are based on a joint diagnostic with the rest of the donor community and with the EU joint analysis. The EBRD has proven to be a leading partner in those key areas, therefore EBRD will be entrusted with the implementation of those activities.

Other organisations are also mentioned as part of the effort to better coordinate EU interventions at regional and national level. Those organisations are also considered as possible implementing partners. Taking into consideration the sensitivity of certain areas of interventions mentioned, the EU might also consider implementing certain actions directly through a TA or a twinning project.

The areas are clustered in four pillars due to their interlinkages, and in order to ensure the highest complementarity and a certain division of labour amongst the different implementing partners. The pillars also reflect the different political priorities (Global strategy, Riga priorities, Partnership Priorities, 2020 deliverables).

The TCF would cover the following types of Technical Assistance :

- Policy advisory (drafting legal documents, ...)
- Implementation of reforms (training, coaching)
- Sector Study (in collaboration with the Centre for Strategic Initiatives and EU strategic support)
- Feasibility study for riskier infrastructure projects or other alternatives
- Organisation of events linked to sector policy dialogue

5 IMPLEMENTATION

5.1 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 Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

5.3.1 Grants: up to 5 calls for proposals for twinning projects (direct management)

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

The Twinning modality via a call for proposals will be used for up to 5 actions in areas supporting the implementation of the new Comprehensive and Enhanced Cooperation Agreement and the Partnership Priorities with Armenia.

(b) Eligibility conditions

In line with Article 4(10)(b) of Regulation (EU) No 236/2014, participation in Twinning calls for proposals is limited to public administrations of the EU member States, being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies entrusted with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant. The essential award criteria are the technical expertise of the applicant and the relevance, methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing

The rate of co-financing for Twinning grant contracts is 100%⁵.

(e) Indicative timing to launch the call(s)

First trimester of 2018.

(f) Use of lump sums/flat rates/unit costs

Twinning contracts include a system of unit costs and flat rate financing, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member States administrations. The use of this system of unit costs and flat rate financing, which exceeds the amount of EUR 60 000 per beneficiary of a Twinning contract, is subject to the adoption of a separate, horizontal Commission decision.

5.3.2 Grant: direct award to the World Bank (direct management)

(a) Objectives of the grant, fields of intervention, priorities of the year and expected results

As per section 4.2, the World Bank would initially and indicatively cover action 1 of component 1; actions 1 and 4 of component 2 and action 2 of component 4.

⁵ As provided for in the Twinning Manual.

(b) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to World Bank.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because this action has specific characteristics requiring a specific type of beneficiary for its technical competence and specialisation in line with Article 190(1)(f) RAP. The World Bank is a leading international organisation in Armenia with a broad experience and trustable mandate. The World Bank group's Country Strategy for Armenia commits to helping reforms in key areas needed for the country to regain competitiveness, maintain macroeconomic stability and sustain growth. Such strategic goals, commitments and engagements with country priorities perfectly well match the objectives of this Action. As practice shows, implementation of activities is smooth and efficient when Armenian authorities work with donor organisations which have their own office in the country, understand the country specifics, and which they consider as "reliable" both from professional and organisational points of view.

(d) Essential selection and award criteria

The essential selection criteria are the 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.

(e) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 100%.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(f) Indicative trimester to conclude the grant agreement

First trimester of 2018

5.3.3 Indirect management with the European Bank for Reconstruction and Development

A part of this action may be implemented in indirect management with the European Bank for Reconstruction and Development in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the implementation of activities as per section 4.2, the EBRD would initially and indicatively cover actions 2, 3, 4 of component 1 and actions 2 and 3 of component 2. This implementation is justified because this action has specific characteristics requiring a specific type of beneficiary for its technical competence and specialisation. The EBRD is a leading international organisation in Armenia with a broad experience and trustable mandate. The EBRD's Country Strategy for Armenia commits to helping reforms in key areas needed for the country to regain competitiveness, support private sector development and sustain growth. Such strategic goals, commitments and engagements with country priorities perfectly well match the objectives of this Action. As practice shows, implementation of activities is smooth and efficient when Armenian authorities work with donor organisations which have their own office in the country, understand the country

specifics, and which they consider as "reliable" both from professional and organisational points of view.

The entrusted entity would carry out the following budget-implementation tasks: recruiting international experts to support the implementation of the tasks and organising different workshops and trainings.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in sections 5.3.1. or 5.3.4.

5.3.4 Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Ad hoc technical assistance	services	2	First semester 2018

5.4 Scope of geographical eligibility for procurement and grants

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

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution (amount in EUR)
5.3.2 – Direct grant WB (direct management)	1,500,000
5.3.23 – Direct grant EBRD (indirect management)	1,500,000
5.3.1 – Call for proposals Twinning (direct management)	3,700,000
5.3.4 – Procurement (direct management)	500,000
5.8 – Evaluation, 5.9 - Audit	150,000
5.10 – Communication and visibility	150,000
Contingencies	N.A.

Total	7,500,000
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5.6 Organisational set-up and responsibilities

A Steering Committee shall be set up to oversee and validate the overall direction and policy. The Steering Committee shall agree on the annual work plan, and provide comments on technical and financial reports and validate them. The Steering Committee may take the necessary measures to ensure the proper implementation of the project according to the framework of this action.

The project steering committee shall be made up of:

- a representative of the EU Delegation (co-chair);
- a representative of the beneficiary country (co-chair);
- a representative of the WB (co-chair);
- a representative of the EBRD (co-chair);
- representatives of relevant beneficiaries of the action (as members);
- representatives of EU Member States, development partners, business associations and other civil society organisations might be invited (as observers) in order to monitor the programme implementation.

The project steering committee shall meet twice a year.

5.7 Performance 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 results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logical framework matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

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).

5.8 Evaluation

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components via independent consultants through a joint mission contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the action requires

comprehensive coordination amongst multiple implementation partners as well as the political sensitivity of certain areas of intervention.

The Commission shall inform the implementing partner at least 1 month in advance of the dates foreseen 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. 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.

Indicatively, one contract for evaluation services shall be concluded under a framework contract in June 2022.

The financing of the evaluation shall be covered by another measure constituting a financing decision.

5.9 Audit

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 audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded under a framework contract in June 2022.

The financing of the audit shall be covered by another measure constituting a financing decision.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate

contractual obligations shall be included in the financing agreements or delegation agreements.

With regards to the Neighbourhood East, all EU-supported actions shall be aimed at increasing the awareness level of the target audiences on the connections, the outcome, and the final practical benefits for citizens of EU assistance provided in the framework of this action. Visibility actions should also promote transparency and accountability on the use of funds.

Outreaching/awareness raising activities will play a crucial part in the implementation of the action, in the case of budget support the national government shall ensure that the visibility of the EU contribution is given appropriate media coverage. The implementation of the communication activities shall be the responsibility of the implementing organisations, and shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the Commission (European Neighbourhood Policy and Enlargement Negotiations) will be strictly adhered to.

Where relevant, the provisions of the Financial and Administrative Framework Agreement concluded between the European Union and the selected international organisations shall apply.

It is the responsibility of the implementing organisation to keep the EU Delegations and, where relevant, DG NEAR, fully informed of the planning and implementation of the appropriate milestones specific visibility and communication activities.

The implementing organisation shall report on its visibility and communication actions, as well as the results of the overall action to the relevant monitoring committees.

This action will be communicated externally as part of a wider context of EU support to the country, and where relevant to the Eastern Partnership region in order to enhance the effectiveness of communication activities and to reduce fragmentation in the area of EU communication.

The implementing organisation shall coordinate all communication activities with EU Delegations as well as regional communication initiatives funded by the European Commission to the extent possible. All communication strategies developed as part of this action shall ensure they are in line with the priorities and objectives of regional communication initiatives supported by the European Commission and in line with the relevant EU Delegation's communication strategy under the "EU4Armenia" umbrella initiative.

APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY)

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	The main purpose of this Action is to support key economic reforms in areas that have been identified as economic growth constraints or opportunities.	GDP growth (%)**	GDP growth : 2.4% (2016) ⁶	GDP growth: 3.0% (2019)	National Statistics Services (NSS) and Central Bank annual reports, IMF Country Reports.	
Specific objective(s): Outcome(s)	SO.1 Improved Economic Governance and better management and attraction of Public and Private Investment	1. FDI (million USD) 2. Debt to GDP ratio	1. FDI: 162 million USD (2015) ⁷ 2. Debt to GDP ratio: 55% (2016) ⁸	1. FDI: 393 million USD (2022) ⁹ 2. Debt to GDP: below 58%	1. National Statistics Services (NSS) and Central Bank of Armenia (CBA) annual reports 2. IMF Country Report	The Government maintains the pace of current reforms in business environment. a
	SO.2 Improved Business and investment climate for daily business operations	Doing Business Index (WB)	Doing Business Index: 38 th place out of 190 countries (2016)	Improved ranking in Doing Business Index: among top 20 countries (2021)	Doing Business report (WB)	The Government maintains the pace of current reforms in business environment. a

⁶ IMF Country Report No 17/226 available at: <https://www.imf.org/en/Publications/CR/Issues/2017/07/19/Republic-of-Armenia-2017-Article-IV-Consultation-and-Fifth-and-Final-Review-Under-the-45107>

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

	SO.3 Improved Trade and Market opportunities/access for Armenian businesses	Foreign trade growth (%)	Foreign trade growth: 7.4% (2016)	Foreign trade growth: 5% annual average (2022)	Eurostat, NSS and CBA annual reports	The Government maintains the pace of current reforms in business environment. a
	1. SO.4 Improved Connectivity and energy	Number of provisions from the ECAA implemented 1. Energy intensity (toe per thousand 2005 USD) 2. Percentage of RE in the total energy generation**	International Energy Agency baseline to be set for 2018; 1. Energy intensity: 0.15 (2013) 6% (2012)	International Energy Agency targets to be set in 2018; 1. Energy intensity: 0.11 (2022) 21% (2020)	1. Report on the implementation of the ECAA 2. International Energy Agency report 3. NSS report	The Government maintains the pace of reforms and investment.
Outputs	<ul style="list-style-type: none"> 1.1. The Public Investment and Debt Management functions are improved 1.2. Universal Public Private Partnership (PPP) Law approved and being implemented 1.3. The new Public Procurement law is being implemented 1.4. Local Currency and Capital Market Development roadmap further implemented 	<ul style="list-style-type: none"> 1.1. Number of reforms/measures implemented 1.2.1. The PPP law adopted 1.2.2. Number of PPPs 1.3. Percentage of non-objective single source procurement from total procurement value at all levels of government 1.4. Interbank Interest rate 	1.1. 0 (2016) 1.2.1. 0 (2016) 1.2.2. TA will define a baseline in 2018 1.3. 19% (2016) 1.4. 6% (July 2017)	1.1. At least 1, e.g. introduction of cost-benefit-effectiveness or similar methodologies (2020) 1.2.1. Law adopted (2019) 1.2.2. TA will define targets in 2018 1.3. 5% (2020) 1.4. 6% or below (2020)	1. Ministry of International Economic Integration and Reforms report Progress reports from GoA, EBRD and WB 2. Procurement Support Centre reports 3. CBA report	The Government maintains the pace of reforms.
	<ul style="list-style-type: none"> 2.1. The Regulatory Impact Assessment (RIA) function is revived 2.2. “Business Ombudsman” functionalities are established 2.3. Support business climate eco-system for SMEs 2.4. the risk-based inspection 	<ul style="list-style-type: none"> 2.1. Number of legal acts subject to RIA 2.2. Business Ombudsman office established 2.3. Doing Business Index: paying taxes (WB) 	2.1. TA will define a baseline in 2018 2.2. 0 2.3. 88 th place out of 190 (2017) 2.4. 3 (2013)	2.1. TA will define targets in 2018 2.2. 1 (2019) 2.3. Improved ranking in Doing Business Index in paying taxes: among top 60 countries (2021)	2.1. GoA, EBRD, WB progress reports 2.2. Government Decree on the establishment of Business Ombudsman 2.3. Doing Business Report (WB)	

	reform is finalized	<ul style="list-style-type: none"> 2.4. Average Number of times firms were inspected by tax officials in the last year 		2.4. 2 (2020)	2.4. EBRD BEEPS report	
	<ul style="list-style-type: none"> 3.1. Intellectual Property Rights are correctly protected 3.2. Customs services implemented commitments under the MC8 TFA 3.3. Quality infrastructure (QI) allows companies to be better prepared for exporting to the EU 	<ul style="list-style-type: none"> 3.1. Intellectual property rights index: position out of 127 countries 3.2. Number of measures implemented in line with the provisions set in the EU-Armenia Framework Agreement 3.3. Total amount of EU- Armenia Trade flow (Million euros) 	<p>3.1. 107 (2017) 3.2. 0 (2017) 3.3. 936M euros (2016)</p>	<p>3.1. Among 80 (2022) 3.2. TA will define the targets in line with Agreement in 2018 3.3 Average annual increase by 3% (2020)</p>	<p>3.1. Intellectual property rights index report 3.2. EU reports on the implementation of the trade related provisions under the EU-Armenia framework agreement; WTO report on the implementation of the TFA 3.3. Eurostat, NSS and CBA annual reports</p>	
	<ul style="list-style-type: none"> 4.1. ECAA agreement fully enforced 4.2. Increased capacity of Energy efficiency and renewable energy market intermediaries 	<ul style="list-style-type: none"> 4.1. Percentage of EU-Armenia ECAA Agreement regulations adopted 4.2. Number of energy-efficient multi-family residential programmes piloted in a region 	<p>4.1. 0% (2017) 4.2. 0 (2017)</p>	<p>4.1. 100% (2020) 4.2. 1 (2020)</p>	<p>4.1. EU/Armenia Government reports 4.2. WB/ Government reports</p>	