



This action is funded by the European Union

**ANNEX 2**

of the Commission Implementing Decision on the Annual Action Programme 2015 in favour of the Republic of Armenia

**Action Document for**  
**Public Finance Policy Reform Programme in Armenia**

<b><u>INFORMATION FOR POTENTIAL GRANT APPLICANTS</u></b>	
<b><u>WORK PROGRAMME FOR GRANTS</u></b>	
This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning grants awarded directly without a call for proposals: 5.4.1. Grant – direct award (direct management).	
<b>1. Title/basic act/ CRIS number</b>	Public Finance Policy Reform Programme in Armenia CRIS number: ENI/2015/038-229 financed under European Neighbourhood Instrument
<b>2. Zone benefiting from the action/location</b>	East Neighbourhood, Armenia The action shall be carried out at the following location: Armenia
<b>3. Programming document</b>	Single Support Framework for EU support to Armenia 2014 - 2017
<b>4. Sector of concentration/ thematic area</b>	Public Administration Reform/Anti-corruption and Public Finance Management
<b>5. Amounts concerned</b>	Total estimated cost: EUR 10.075 million Total amount of EU budget contribution EUR 10 million of which: EUR 8 million for budget support and EUR 2 million for complementary support This action is co-financed by potential grant beneficiaries for an indicative amount of EUR 0.075 million.

<b>6. Aid modality(ies) and implementation modality(ies)</b>	Budget Support			
	Direct management – Budget Support: Sector Reform Contract; grant – direct award; procurement of services			
	Indirect management with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)			
<b>7. DAC code(s)</b>	Main DAC code: 151 / sub-code : 11 /sub code: 50 /sub code 52			
<b>8. Markers (from CRIS DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	X
	Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade Development	X	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
<b>9. Global Public Goods and Challenges (GPGC) thematic flagship</b>	NA			

## SUMMARY

The overall objective of the Public Finance Policy Reform (PFPR) budget support programme is to support transparency and accountability of fiscal governance in Armenia.

The PFPR budget support programme is in line with the Single Support Framework (SSF) 2014-2017 aiming at supporting improved Public Finance Management (PFM) systems and to contribute to the fight against corruption by focusing on fiscal governance, programme budgeting, public accounting, public procurement, public internal controls, public and citizen oversight, and external audit. In doing so, the programme will also contribute to provide strategic support to public finance institutions and to enhance public accountability and oversight.

While the recent completed Public Expenditure Financial Accountability (PEFA) evaluation and the ongoing revision of the PFM strategy are evidence of the government's continued commitment to reforming PFM systems, the programme will further reinforce policy dialogue and coordination in a critical governance area in Armenia.

## 1 CONTEXT

### 1.1 Sector/Country/Regional context/Thematic area

The Armenia Development Strategy provides the overall strategic framework for public administration reform, including civil service development, public finance management, local self-governance as well as anti-corruption efforts. In the area of Public Finance Management (PFM), Armenia is implementing its PFM 2011–2020 Reform Strategy covering areas such as, *inter alia*, internal audit, procurement, accounting and reporting, and programme budgeting and, following the 2014 PEFA update, also the PFM Strategy is being updated. Furthermore, the ongoing 2011–2016 Strategic Development Programme of the Chamber of Control aims at introducing and gradually implementing auditing standards in line with International Organisation of Supreme Audit (INTOSAI) recommendations. Furthermore, an anti-corruption strategy is being developed and is expected to be approved during 2015.

In Armenia the PFM legal framework consists of a number of laws and other legal acts which derive from constitutional provisions and include the Budget System Law, the Treasury System Law, the Laws on Taxes, Procurement, Financial Equalization, Internal Audit, Chamber of Control, and the Law of the Republic of Armenia on Rules of Procedure of the National Assembly.

While basic PFM systems and procedures are in place, further efforts are necessary to support improvements in fiscal governance and accountability as well as in PFM areas such as internal and external audit, accounting and procurement.

#### ***1.1.1 Public Policy Assessment and EU Policy Framework***

The European Neighbourhood Policy Action Plan for Armenia adopted in 2006 provides a comprehensive framework for closer cooperation with Armenia in the area of economic governance and anti-corruption. Furthermore, the joint Vilnius statement of the EU and Armenia of November 2013 includes a commitment to further cooperation aimed at, *inter alia*, the continuous improvement of democratic institutions and good governance, the fight against corruption, strengthening civil society, and further improvement of the framework for enhanced trade and investments. Within this policy context, pillar 2 of the SSF 2014-2017 focuses on Public Administration Reforms with specific objective 2 aimed "to improve the quality of public finance management". Furthermore, the PFPR budget support programme will be in line with the principles on Public Finance Management as defined in the SIGMA policy papers on Principles of Public Administration (November 2014)<sup>1</sup>.

Armenia has made substantial progress in improving its PFM systems and practices reinforcing capacity for fiscal management, strategic planning and budgeting while also improving the management control systems. The first generation of fiscal management reforms addressed issues such as budget classification, commitment control, debt management and treasury system. Substantial improvements in budget classification were achieved by adopting the *GFS 1986* format and then moving towards introduction of *GFS 2001* classification. Other important reforms include consolidation of government accounts in

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<sup>1</sup> <http://www.sigmaxweb.org/publications/Principles-Public-Administration-Nov2014.pdf>

the Treasury Single Account and improvements in cash and debt management functions of the Government.

The second generation of fiscal reforms, started in mid-2000s, are gradually addressing more sophisticated issues including the linkage of budget allocations with strategic planning, and increasing transparency and the result orientation of the budget allocations via the development of medium-term expenditure framework and programme budgeting.

The 2011-2020 PFM Strategy approved in October 2010 is seeking to gradually approximate to international and European practices and standards and on the principle of “centralized regulation, decentralized management”. To accompany such ambitious vision, specific reforms are however needed in order to increase accountability and facilitate the progressive establishment of a management culture which will allow for a gradual delegation of powers in the use of public resources. In this context, an updated Strategy is being drafted, also with the support of the EU. It is also worth noting that the authorities have committed to associate international and local stakeholders in this endeavour. It is expected that the updated Strategy will be approved through a Government decree signed by the Prime Minister in the second half of 2015.

### *1.1.2 Stakeholder analysis*

In the PFM field, among other powers prescribed by the Constitution, the National Assembly approves the annual state budget, exercises oversight over its execution, as well as the use of borrowings and lending from foreign states and international organisations, and based on the conclusions of the Chamber of Control, discusses and approves the annual state budget execution report.

The National Assembly (NA) has committed to set up a Budget Office in order to assist the Parliament on public finance issues via the provision of independent budgetary information and analysis, thereby contributing to progressively improving transparency, effectiveness and accountability in the budgetary process of Armenia. The Budget Office is expected to become operational by end 2015 - early 2016.

As prescribed by the Constitution, the government submits its programme, the draft annual state budget to the National Assembly for approval, ensures its execution and its reporting, manages state-owned property, and implements the unified financial-economic, credit and tax policy.

The Ministry of Finance (MOF) is the central executive body that develops and implements government policy in the areas of PFM. Its main specific functions directly related to the PFM system are as follows: macroeconomic planning and the coordination of fiscal policy; tax policy and tax administration; coordination of the budget process; coordination of internal audit; developing legal acts on procurement and organising the methodological guidance of the procurement process; developing public sector accounting and audit standards. Other agencies and institutions are actively involved in the PFM systems and monitored and/or regulated by MOF. The State Non Commercial Organisations (SNCOs) play an important role

in service delivery; today there are around 1,850 SNCOs<sup>2</sup> in the Republic of Armenia which are partly financed from the state budget, and report to MOF financial and non-financial information. In the public procurement field, it is worth mentioning the Public Procurement Service Centre and the Public Procurement Review Board. It is also worth noting that a finance and economic department, dealing also with PFM issues, is located in the Prime Minister office.

The Armenian Chamber of Control (CoC) is the national supreme audit institution and, as explained below as well as in section 4, reinforcing its role is critical in supporting transparency and accountability of the budget.

There are a few civil society organisations involved in the oversight of PFM systems such as Transparency International, OXFAM, the Economic Development and Research Centre, and the Open Society Institute.

The main Development Partners are the EU, GIZ (the German Agency for International Cooperation), the World Bank Group, the International Monetary Fund (IMF), the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB), and a good degree of cooperation exists, in particular within European institutions.

Reforms of PFM systems are led and coordinated by the Minister of Finance through the MOF Collegium. The MOF submits annual reports on the progress of the reforms, and recommendations on reviewing this policy, to the government. A PFM reforms secretariat has been established by the Minister to monitor progress in implementation in various PFM areas, and currently the Public Procurement Methodology Department plays the role of secretariat. It can be also noted that the Chief of Staff of each Ministry, Department and Agency is responsible for the implementation of reforms in each entity, and that reforms are also discussed and coordinated with development partners via a coordination mechanism which however needs to be better formalized and reinforced (see sections 5.7 and 5.8 below).

### ***1.1.3 Priority areas for support/problem analysis***

The main priority areas are structured around the need to further improve Armenia's fiscal governance and in the context of broadening the revenue base, to provide for a more business friendly taxation environment.

With regards to improving the strength of the PFM system further, the priorities will be structured around a support to the implementation of programme budgeting; support to the implementation of Armenia's Financial Management Information System (GFMIS); taking the next steps in improving public procurement to reduce the use of "sole sourcing"; develop the capacity of public internal control to support ongoing reforms in areas such as civil service and public investment.

Another priority area for support in light of Armenia's weaknesses, is the need to strengthen the link between government and oversight bodies such as the National Assembly (NA) by supporting strengthening and visibility of the Budget Committee of the National Assembly; to improve quality and access to key fiscal information aimed at facilitating civil society's

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<sup>2</sup> Around 1,500 are educational institutions such as schools.

involvement in oversight and dialogue and to reinforce the role, independence and visibility of the Supreme Audit Institution.

While the focus of this PFPR budget support programme is on the central government, the programme will also aim at supporting an inclusive coordination and monitoring of PFM reforms involving all stakeholders with a special attention towards those coming from civil society.

## **1.2 Other areas of assessment**

### ***1.2.1 Fundamental values***

During 2014 Armenia continued efforts to address issues related to human rights and fundamental freedoms, but further progress is necessary, especially in terms of implementation and enforcement of legislation. Although the government has finalised the Human Rights Action Plan, steps toward the necessary upgrading and implementation of the plan have been slow. Concerns regarding the right to free elections, the right not to be subjected to torture and ill-treatment, and non-discrimination persist. Obstacles to gender equality also continue, compounded by gender-based violence. The implementation and enforcement of existing laws in the area of children's rights remains inadequate. Respect for fundamental values is also hampered by insufficient conditions guaranteeing media pluralism, the right to association with respect to trade unions, freedom of religion and other areas. The situation is exacerbated by corruption that undermines the rule of law, access to justice, and failure of courts to enforce the right to a fair trial.

### ***1.2.2 Macroeconomic policy***

After the 2008-2009 crisis, the structure of the Armenian economy changed significantly with the services (around 40%) and agriculture (around 20%) sectors becoming the primary contributors to GDP and its growth. The construction sector is still to recover from its pre-crisis role in GDP growth. High dependency on remittances (mainly from Russia) and an import-oriented economy have moved Armenian consumption levels close to and even above the GDP level. Exports continue to lag significantly behind the level of imports and are dominated by exports of natural resources (mineral products, metals). Armenia is therefore heavily dependent on international commodity prices.

Economic growth decelerated slightly, from 3.5% in 2013 to 3.4% in 2014. However, medium-term growth is uncertain also owing to the evolution of the Russian economic crisis with exporters exposed to the currency fluctuations.

Inflation was contained in 2014 but is now showing signs of reviving, following the depreciation of the Armenian Dram. The central bank continues its commitment to a flexible exchange rate and inflation-targeting regime, except when the stability is at risk.

Fiscal discipline is relatively strong with a deficit below the 3% level for the last few years, after a 7.5% deficit in 2009, with public debt reaching 44% of GDP in 2013. However, fiscal deficit is projected to increase from 2% in 2014 to around 4.3% in 2015, and so is the public debt/GDP ratio which is expected to reach 44.8% in 2015.

The current account deficit widened to 9.2% of GDP in 2014 (from 8% in 2013) on the back of weak export growth and declining remittances (most of which come from Russia).

Concerning business climate, the World Bank Doing Business report ranked Armenia fortieth (out of 169 countries) in 2013 and thirty-seventh in 2014. However, while Armenia performs well in areas related to opening business, it does not do so in areas related to running a business.

An important social challenge is the continuous demographic loss over the last two decades, with a large proportion of economically active males having left the country over the past two decades. This results from lack of opportunities and high unemployment rates in the country (16.2% at the end of 2013 according to the National Statistical Service). The high level of skilled emigration is reflected in Armenia's poor rankings in the Global Competitiveness Index 2014/15, e.g. ranked 123 for "Country capacity to retain talent" indicator and 119 for the "Country capacity to attract talent" indicator.

### ***1.2.3 Public Financial Management (PFM)***

Notwithstanding the need to advance the PFM system further, various reviews over the last decade have recognised the good performance of PFM reforms in Armenia, including the 2014 PEFA review.

The results of the PEFA review are publicly available and Armenia's PFM overall positive assessment is evident in its thirteen (out of twenty-eight) PEFA indicators ranking A and three more ranking B. In particular, the PEFA review provides a positive assessment in relations to PFM areas such as credibility and comprehensiveness of the budget, budget execution, cash/debt management, but progress is noted also in areas such as accounting and revenue administration. While the overall trend can thus be viewed as positive, it remains however evident that continued efforts are needed to improve the governance of public finances, internal and external audits, accounting standards and public procurement.

It can also be noted that a new Law on Public Sector Accounting, adopted in June 2014, is introducing International Public Sector Accounting Standards (IPSAS)-based accounting standards to be implemented in a medium-term perspective and, as mentioned above, the procurement system as well as the quality of external and internal audit functions need to be reinforced.

Overall, challenges remain in many areas and persistent efforts to keep the momentum of reforms are important and, also so as to facilitate a more coherent approach in the next phases of reforms, the EU, together with other cooperating partners, is contributing to assist the authorities in updating the PFM strategy in an open and participatory manner.

### ***1.2.4 Transparency and oversight of the budget***

The state budget information is available to the public through the web and key documents (such as the state budget, the execution report and the audit report) are regularly published on official websites. It can also be noted that Armenia has joined the Open Government Partnership (OGP) and carried out and duly published the PEFA review.

Overall, Armenia has a good record in terms of comprehensiveness of published budget information but further improvements are needed to facilitate the participation of civil society and media representatives in the oversight of the budget, to improve quality and timeliness related to reporting and auditing, and to support transparency and oversight in the gradual move towards performance-oriented budgeting.

Parliament's oversight function is also expected to gradually improve following the establishment of the budget office and the progressive implementation of programme budgeting. Finally, external audit is gradually improving but further effort is required so as to strengthen the quality of external audit in line with INTOSAI recommendations.

## 2 RISKS AND ASSUMPTIONS

<b>Risks</b>	<b>Risk level (H/M/L)</b>	<b>Mitigating measures</b>
Government's lack of adherence to good governance and worsening of the corruption.	M	Close monitoring of political situation continued political dialogue involving the Armenian authorities and civil society; anti-fight corruption reforms implemented.
Insufficient budgetary allocations for reforms due to lower than expected growth.	M	Ministry of Finance-led reform maintains the commitment to this agenda.
Policy steering of the reforms is insufficient and/or stakeholders are not cooperating.	H	Enhanced dialogue also including civil society organisations; reinforced steering and governance systems.
Impact of Armenia's accession to Eurasian Economic Union	L	It is not expected that the implementation of this action will be directly affected but ongoing dialogue and monitoring will signal the need for corrective actions to be undertaken by the authorities responsible for the implementation of this action.
The rules and functioning of the civil service are not conducive to a managerial approach within the public service. Reforms of the civil service law are slow.	H	Continued policy dialogue on reforms of the civil service system.
<b>Assumptions</b>		
It is assumed that the revision of the PFM Strategy is approved during 2015 and that it includes annual and mid-term targets to advance the PFM systems in line with good international standards.		
It is assumed that, also due to the newly created Armenian Anti-corruption NGOs Coalition,		



the interest of civil society in the area of public finance governance will increase, thereby strengthening accountability.

### **3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES**

#### **3.1 Lessons learnt**

Lessons learned from the previous budget support programmes have shown that budget support approach is now better understood by the authorities and considered as an important element in the design and implementation of jointly agreed reforms. In particular, after many years of constant dialogue, the public finance dialogue and governance system has improved and steering committee meetings are held regularly. Nevertheless, experience highlights the importance of being realistic and progressive in the development of public finance reforms and of the need to maintain an on-going policy dialogue on such reforms.

PEFA and other diagnostics show that programmes implemented by the authorities via different types of bilateral cooperation in the areas of public finance have been successful, albeit with varying degree of success. Reforms have indeed ensured the achievement of a solid foundation in public finance policy and management; combined with satisfactory stability-oriented macroeconomic policy, PFM reforms have contributed to progressively improve the quality of the country fiscal governance. Of particular relevance is the role played by the budget support operations in contributing to coordinate PFM reforms and maintaining policy dialogue involving different national and international organisations.

It is also worth noting that the commitment of the authorities to further reforms in public finance policy and management has so far not been compromised by the government reshuffle of May 2014 and the September 2013 decision not to sign the Association Agreement with the EU. The new government has engaged in a constructive dialogue and stated its commitment to public finance-related reforms as critical to further progress, especially needed in times of fiscal consolidation, and in search of greater efficiency, transparency and accountability of public funds. Finally, the publication of the PEFA evaluation complying with more stringent quality-check rules and the ongoing revision of the PFM strategy are also evidence of continued commitment.

#### **3.2 Complementarity, synergy and donor coordination**

Development partners discuss and coordinate their actions in the PFM area at policy and technical levels. In this context, the EU Delegation currently assumes the role of coordinator and it can be noted that the following development partners are active in the PFM field: World Bank (active across all main PEFA dimensions with a specific focus on tax policy and administration, accounting, non-commercial state organisations), GIZ (programme budgeting, areas of controls and tax administration, budget oversight and external audit), IMF (tax policy and administration, and budgeting), EBRD (e-procurement); ADB (public procurement) and USAID (tax administration).

The PFPR budget support programme will contribute to complement and reinforce synergy together with other PFM partners as well as with other EU-funded activities such as the support provided through SIGMA (related to controls and public procurement); a twinning

project on PIFC started in the second half of 2014; ad hoc TAIEX activities as well as advises from DG Budget in controls' area; and short-term technical assistance in support of PEFA assessment and PFM strategy update.

### **3.3 Cross-cutting issues**

The PFPR budget support programme will contribute to support the mainstreaming of budgeting in government policies in relation to gender, human rights, environment and other relevant governance areas. Moreover, the programme will strengthen civil society organisations' ability to monitor budget execution and thereby to monitor the implementation of relevant policies. The action will also contribute to reinforce the governance system of the country by focusing on transparent and accountable management of financial resources. In this context, it is to be noted that the fight against corruption also will benefit from more transparent and accountable PFM systems and controls.

## **4. Description of the action**

### **4.1 Objectives/results**

The **overall objective** of this programme is to support transparency and accountability of fiscal governance in Armenia.

The **specific objective** of this programme is to improve the efficiency, effectiveness and transparency of Armenia's Public Finance Management system in line with international practice and standards.

The **expected results** of this programme in the public finance management area and the fight against corruption are as follows:

1. Improvement of fiscal governance standards along international/EU standards and a more business friendly tax environment with a wider tax base;
2. Improved programme budgeting in line with international practice resulting in enhanced accountability, transparency and efficiency of the budget;
3. Modernised financial accounting, recording and reporting through the implementation of the Government Financial Management Information System (GFMIS);
4. Improved public procurement systems by, inter alia, reducing the use of sole sourcing and strengthening its governance;
5. Reinforced internal controls systems supporting management and accountability in line with international practice and standards;
6. Enhanced quality of and public access to key fiscal information facilitating civil society's budget oversight and policy dialogue;
7. Improved budget oversight role of the National Assembly via its Finance Committee;

8. Strengthened external audit through greater role and visibility of the Chamber in line with INTOSAI standards.

## **4.2 Main activities**

### ***4.2.1 Budget support***

The emphasis of the budget support component will be to improve the efficiency, effectiveness, transparency and accountability of the state budget and its public finance management in line with international and EU practice and standards within a timespan of three fiscal years. Main pillars of this action will be fiscal governance, programme budgeting, GFMS, public oversight and external audit. To support the fight against corruption, improvement in controls, public procurement, accountability and participation as well as the setting up an effective national coordination system for managing the reforms will be pursued.

### ***4.2.2 Complementary support***

- Strengthening the institutional capacity of the Ministry of Finance, the Chamber of Control, and the Budget Office of the National Assembly in PFM areas;
- Promotion of civic engagement and participation in the budget process as well as the fight against corruption, by strengthening the capacity of the CSOs in policy dialogue, budget monitoring and awareness rising. When carrying out this assistance, the gender dimension will be specifically considered in order to study and to analyse budgetary policy and eventually promote gender budgeting (for example in social programmes) within the programme budgeting approach.
- Carrying out periodic BS conditions compliance reviews.

## **4.3 Intervention logic**

By supporting the implementation of the national PFM Strategy 2011-2020, the PFPR budget support programme will contribute to strengthen public finance institutions. The action builds on key priority areas jointly identified with the authorities in terms of transparency and accountability such as public procurement, audit and quality of information. Importantly, the PFPR budget support programme also supports the gradual improvement of Armenia's fiscal governance along EU fiscal governance standards and seeks to raise the level of discussions to a policy dialogue involving the Ministry of Finance, the National Assembly and the Chamber of Control while supporting their respective prerogatives and accountability. In addition, coordination involving national and international partners will facilitate a more structured harmonisation and cooperation. The intervention is inspired by values such as the fight against corruption and the democratic accountability as well as by initiatives taken in other countries in the Eastern Partnership region. Finally, the programme will build on the SIGMA principles on Public Finance Management as defined in the SIGMA policy papers on Principles of Public Administration (November 2014).

## **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 the section 4.2 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 of the budget support component**

### ***5.3.1 Rationale for the amounts allocated to budget support***

The amount allocated for budget support component is EUR 8 million, and for complementary support is EUR 2 million. This amount is based on proven record of commitment of the government of Armenia to allocate national budget resources in line with development strategy and objectives. It may also be noted that the total cost of PFM-related reforms is currently estimated at around EUR 45 million.

### ***5.3.2 Criteria for disbursement of budget support***

- a) The general conditions for disbursement of all tranches are as follows:
- Satisfactory progress in the implementation of PFM Reform Strategy and continued credibility and relevance thereof;
  - Implementation of a credible stability-oriented macroeconomic policy;
  - Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.
- b) The specific conditions for disbursement that may be used for variable tranches will be related to achievement of specific objectives and main expected results as identified in the sections 4.1 and 4.2 above.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the government of Armenia may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

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

### ***5.3.3 Budget support details***

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into Armenian Dram will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement. Being the action a follow up to the Multi Sector Budget Support operations that included PFM targets, only variable tranches will be used, specifically three variable tranches.

## **5.4 Implementation modalities for complementary support**

### **5.4.1 Grant: direct award to the Armenian Anti-corruption Coalition of Civil Society Organisations (direct management)**

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

Linked to the specific objective of the PFPR budget support programme, the grant aims at strengthening the role of the newly created Armenian Anti-corruption Coalition of Civil Society Organisations. The grant will support capacity strengthening activities. Expected results include the following: anti-corruption monitoring strengthened; public budget expenditure and PFM reforms monitored; anti-corruption coalition strengthened; CSOs-Republican institutions' dialogue on anti-corruption dialogue strengthened.

#### (b) Justification of a direct grant

In accordance with Article 190(1)(f) of Commission Delegated Regulation (EU) No 1268/2012, under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant to the Armenian Anti-corruption Coalition of Civil Society Organisations without a call for proposals is justified because this action has specific characteristics requiring a specific type of beneficiary for its technical competence, specialisation or administrative power.

The Anti-Corruption Coalition was established in 2014 in Armenia under the guidance of the Armenian Young Lawyers Association (AYLA) and currently has a membership of 75 NGOs. These include leading NGOs such as Freedom of Information Centre of Armenia, International Centre for Human Development, Foundation for Small and Medium Business, as well as smaller NGOs from Yerevan and the regions. The coalition is the only technically competent network of CSOs that has the potential to raise the efficiency of CSO control over anti-corruption reforms of the Government in various sectors, contribute to the enforcement and development of anti-corruption institutional mechanisms, contribute to the increased anti-corruption understanding and awareness-raising in the society, protection of the rights of the victims of corruption, enhance the abilities of the CSOs in terms of public control and anti-corruption activities.

The Anti-Corruption Coalition and its individual members have been active in raising a number of issues over the past year. The Coalition is undertaking monitoring of implementation of the UN Convention Against Corruption, and AYLA is a member of the UNCAC international coalition. AYLA is planning institutional development of the coalition, with the aim of creating a strong board that would comprise the most capable representatives from each of the regions. AYLA is currently providing small grants to coalition members to undertake monitoring of many areas of Government policy.

#### (c) 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.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 80% of the eligible costs of the action.

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.

(e) Indicative trimester to conclude the grant agreement

Q3 of first year of implementation of the Action

**5.4.2 Procurement (direct management)**

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
Technical Assistance to the MoF and other republican institutions on Public Finance reforms including fiscal governance, internal controls, public procurement, access to fiscal information, gender budgeting.	Services	1-2	Q3 2016
BS conditions compliance reviews	Services	1	Q3 2016

**5.4.3 Indirect management with GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit)**

A part of this action may be implemented in indirect management with GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails supporting the action in the fields of programme budgeting (also considering gender budgeting), public oversight and strengthening the external audit function, among others. This implementation is justified because of the valuable expertise developed by GIZ in this field in Armenia since 2009, and in particular since the launch of its regional programme on public financial management in the South Caucasus (Armenia and Georgia) in 2012. In particular, the three areas of specific support to be provided by GIZ are key areas of expertise of GIZ in Armenia. Finally, GIZ has established strong professional and institutional networks from which this intervention would also benefit.

The entrusted entity would carry out the following budget-implementation tasks: procurement and contracting of relevant activities, payments and audits.

### 5.5 Scope of geographical eligibility for procurement and grants

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

The Commission’s authorising officer responsible may extend the geographical eligibility 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 realization of this action impossible or exceedingly difficult.

### 5.6 Indicative budget

	<b>EU contribution (in EUR million)</b>	<b>Indicative third party contribution (in EUR million)</b>
5.3.- Budget support - Sector Reform Contract	8.0	N.A
5.4.1. – Direct grant to Armenian Anticorruption Coalition (direct management)	0.3	Max 0.075
5.4.2. – Procurement (direct management)	0.6	N.A.
5.4.1.3. –Indirect management with GIZ	1.0	N.A
5.9. – Evaluation and 5.10 - Audit	0.05	N.A.
5.11. – Communication and visibility	0.05	N.A.
<b>Totals</b>	10.0	Max 0.075

### 5.7 Organisational set-up and responsibilities

Oversight of the overall programme will be entrusted to a Steering Committee chaired by the RA Deputy Minister of Finance, the Chairman of the Budget Committee of the National Assembly and the Chairman of the Chamber of Control, including the EU Delegation and representatives of ministries and institutions involved in the implementation of this Programme to ensure a structured dialogue with the government and close coordination among all stakeholders during implementation. Relevant civil society organisations and international development partners will also be invited to the meetings. The Steering Committee will be linked to specific sub-sector PFM working groups for each main area of reform.

The Committee will meet at least once a year, indicatively in March, to review the progress made and decide on any proposed modification to the Programme.

In addition, the PFPR programme will be also discussed at the annual Budget Support Governance Board. The Budget Support Governance Board is co-chaired by the Minister of Economy and the EU Head of Delegation, and is open to the participation of all relevant ministries and government departments benefiting from budget support programmes, as well as to concerned civil society organisations and to representatives from EU Member States embassies and other cooperating partners. Its main role is to reinforce policy dialogue at the country level and to provide guidance in the supervision of EU-supported Budget Support programmes, thereby contributing to strengthen transparency and coordination between the authorities, donor community and non-state actors.

## **5.8 Performance monitoring and reporting**

External review missions for the verification of the compliance with conditions attached to the release of each annual variable tranche will be carried out. These will take place indicatively during the month of March of the year when the disbursement is due and will be funded by this action. The status of implementation of each condition will be timely presented at the Steering Committee and, based on documented evidence, duly-justified recommendations on tranche disbursement provided.

The Chamber of Control and the Parliament shall timely provide the Ministry of Finance (MOF) with all the necessary information allowing MOF to produce a consolidated annual monitoring report. Such annual monitoring report, providing also documented evidence of all the PFPR results and conditions achieved in the January-December period of each year of the implementation of the Action, shall be formally transmitted to the EU Delegation not later than by end-February of the year when the disbursement is due.

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 logframe 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).

## **5.9 Evaluation**

Having regard to the importance of the action, a final evaluation will be carried out for this action or its components via independent consultants 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 this sector remains a priority



area of EU support to Armenia, that builds on previous assistance, and that could be continued by further assistance.

The Commission shall inform the implementing partner at least three months 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, timely provide them with all the 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 indicatively at the end of the operational implementation period.

### **5.10 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 indicatively at the end of the operational implementation period.

### **5.11 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 5.6. above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by 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.

Indicatively, one contract for communication and visibility services shall be concluded in Q2 of the first year of operational implementation.

## **6. PRECONDITIONS**

In order to ensure a proper management of the programme, the updated PFM Reform Strategy 2011-2020 together with its revised annual targets as well as the PFM Monitoring and Evaluation (M&E) systems and its policy steering system (involving the three main institutions, i.e., the Parliament, the Chamber and the Ministry of Finance), need to be duly approved and published, before signature of the Financing Agreement.

## APPENDIX - INDICATIVE LIST OF RESULT INDICATORS (FOR BUDGET SUPPORT)

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	<b>Intervention logic</b>	<b>Indicators</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources and means of verification</b>
<b>Overall objective: Impact</b>	The overall objective of this programme is to support transparency and accountability of fiscal governance in Armenia.	1. World bank Good governance Indicators (1.a. Voice and accountability; 1.b. Political stability; 1.c Government effectiveness; 1.d Regulatory quality; 1.e Rule of law; 1.f Control of corruption)  2. Corruption Perception Index	Baseline as included at page 135 of Armenian Development Strategy (ADS) (Year 2010)	Targets as included at page 136 of ADS (year 2019)	M&E of the implementation of the ADS  Ad hoc ex-post evaluation
<b>Specific objective(s): Outcome(s)</b>	The specific objective of this programme is to improve the efficiency, effectiveness and transparency of the Public Finance Management systems on the basis of the Armenian strategy of reform of the PFM systems 2011-2020, in line with international best practice and standards.	PEFA assessment indicators  PFM Strategy indicators (under revision)  Anti-corruption Strategy indicators (under consideration)	PEFA Assessment Indicators 2013 (Report 2014)  Baselines of the PFM Strategy and the Anticorruption Strategy (not yet available)	PEFA Assessment Indicators (year 2019)  Targets of the PFM Strategy and the Anticorruption Strategy (year 2019 at the latest)	PEFA Assessment Report  Annual monitoring report of the PFM Strategy  Annual monitoring report of the Anti-corruption Strategy

<b>Direct outputs</b>	<p>1.Improved fiscal governance standards along international/EU standards and a more business friendly tax environment with a wider tax base;</p> <p>2.Improved programme budgeting in line with international practice resulting in enhanced accountability, transparency and efficiency of the budget;</p> <p>3.Modernised financial accounting, recording and reporting through the implementation of the government Financial Management Information System (GFMIS);</p> <p>4.Improved public procurement systems by, inter alia, reducing the use of sole sourcing and strengthening its governance;</p> <p>5.Reinforced internal controls systems supporting management and accountability in line with international practice and standards;</p>	<p>1a. Policy documents defining medium- and long term perspectives to approximate with international/EU Fiscal Governance; 1b. Number of technical consultations with government and non-government stakeholders</p> <p>2. Budget preparation, management and accountability systems improved by 2020 in line with programme budgeting rules</p> <p>3. Improved accountability and transparency of accounting, recording and reporting of public funds in line with international best practice and Armenia's own public accounting standards</p> <p>4. Considerable reduction in the use of the single source method of procurement (i.e. only in exceptional cases)</p> <p>5. Improved control and management systems in line with international practice and standards for internal control systems. Increase of the PEFA indicator PI- 20 (effectiveness of internal controls)</p> <p>[20]</p>	<p>1. No policy document on fiscal governance and no meetings held (2015)</p> <p>2. Functional classification, administration classification, economic classification of the budget documents (2015)</p> <p>3. Outdated financial reports</p> <p>4. The incidence of non-competitive procurement is above 50% (2015)</p> <p>5. Internal controls inadequate PI-20: C+ (2014)</p>	<p>1. Report published with the main medium and long-term perspectives for Armenia to approximate with EU Fiscal Governance</p> <p>2. Programme budgeting classification (2019) 2.b. Publication of Key Performance Indicators</p> <p>3. Accounting, recording and reporting in line with international best practice (2019)</p> <p>4. Single source is used in less than 5 % of the contracts (according to value) at all levels of administration (2019)</p> <p>5. Internal controls are modern/effective PI-20: A or B (2019)</p>	<p>1a. Policy document and minutes of meetings 2a. Revised Tax Code or related documents</p> <p>2.a. Approved Budget 2.b. Budget execution reports</p> <p>3. Budget execution report of financial year 2019</p> <p>4. Procurement Service Unit reports</p> <p>5. MoF report on implementation</p>
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	<p>6. Enhanced quality of and public access to key fiscal information facilitating civil society's budget oversight and policy dialogue;</p> <p>7. Improved budget oversight role of the National Assembly via its Finance Committee;</p> <p>8. Strengthened External Audit function through greater compliance with INTOSAI standards.</p>	<p>6. Citizens' budgets are prepared on a yearly basis in a language understandable to the average citizen</p> <p>7. Reinforced accountability and technical capacity of the Budget Office of the National Assembly to fulfil its functions according to international best practice</p> <p>8. Improved capacity at the Chamber of Control to fulfil its external audit tasks, in particular in the fields of performance audit, and independence</p>	<p>6. Not published (2015)</p> <p>7.1. No budget office (2015) 7.2. PI-27: C+</p> <p>8. PI-26: C+ (2014)</p>	<p>6. Regularly Published (2017, 2018, 2019)</p> <p>7.1. The Budget Office conducts quarterly hearings, open to the public and publish analytical papers at each stage of the budget cycle (2019) 7.2. PI-27: A or B (2019)</p> <p>8. PI-26: A or B (2019)</p>	<p>6. Budget documents</p> <p>7. Publication of meetings' reports with recommendations and follow up actions and analytical papers</p> <p>8. Audit reports published</p>
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<b>Induced outputs</b>	Strengthened fiscal management	Improved predictability and fiscal buoyancy of public revenues	PEFA PI 13B+ PEFA PI 14 B PEFA PI 15 D+ (2014)	PEFA PI 13A PEFA PI 14 A PEFA PI 15 B (2019)	PEFA Assessment report
	Strengthened public finance management system	More results-oriented, effective, accountable and transparent management of public funds	PEFA Assessment report (2014)	PEFA Assessment Report (2019)	PEFA Assessment report
	Strengthened link and relation between government, oversight bodies and civil society	Increased and timely exchanges between government and Finance Committee and civil society	No governance system (2015)	Governance system operational (2019)	Minutes of the meetings uploaded in the institutional websites