Tacis National Indicative Programme
for Armenia 2004-2006

Adopted by the European Commission on 18 September 2003
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1. **INTRODUCTION: UPDATE ON THE COUNTRY ANALYSIS**

Armenia's political situation is stable but fragile and influenced by an unstable regional context in particular the conflict with the Republic of Azerbaijan over Nagorno-Karabakh. Economically, Armenia has experienced growth since 1994, but this has much depended on international aid and remittances from the Diaspora. The social situation, which deteriorated considerably over the last decade, is still precarious with more than half of the population under the poverty line.

**Political situation:** President Kocharian has been re-elected to a second term in March 2003; despite an active participation of society in the elections campaign, the Presidential elections fell short of international standards, with serious irregularities noted by the International Observation Mission. Parliamentary elections in May 2003 watched closely by the international community as an opportunity by the government to address the serious problems registered did not signalled much improvement and did not meet the international standards either although the Armenian authorities had promised substantive improvements after the Presidential ballots. The situation in the media is also a matter of concern, particularly for electronic media. The two independent TV channels were put off the air in 2002 and have not yet been able to resume broadcasting. Overall, as a member of the Council of Europe since January 2001 Armenia's progress on respect for democracy, the rule of law and human rights has fallen short of expectations and is drawing strong criticism by the PACE.

**Economic situation:** Real annual growth rate of the economy has averaged 7.7% over the last five years, with per capita GDP reaching 706 $ in 2001, owing to the strong recovery of the manufacturing sector led by the export oriented precious metal and stones sector, and the construction sector fuelled by foreign transfers. However, the high growth rate will only be sustained if the government implements its long-term development strategy consistently, particularly given the country’s heavy reliance on external financing. According to World Bank assessment (Ref: Structural Adjustment Credit 5 (SAC 5) - Mars 2003) despite the progress in macro-economic stability, Armenia’s fiscal adjustment remains weak, impeding the sustainability of economic recovery. The energy sector remains a matter of concern as it is a major drain on public finances and based on unreliable and inefficient systems. Under these conditions, improved revenue performance remains an essential policy priority; This policy, combined with strengthened budget accountability, further reducing the budget deficit, eliminating quasi-fiscal deficit and channelling a larger share of incremental revenues to increased expenditures in basic health, education and old-age pension constitutes the core strategy for fiscal adjustment necessary to achieve sustainable output recovery and poverty reduction. Although the fiscal performance is improving, the government's position is still under pressure from the high level of Armenia’s external debt stock—estimated at one billion $ at the end 2002, which puts strict limits on foreign borrowing with sovereign guarantees. The debt-for equity deal ratified end 2002 will substantially increase Russia’s economic presence in Armenia, particularly in the energy sector. Armenia joined the WTO on 5 February 2003. While Armenia will not be able to take maximum advantage of its membership until the Nagorno-Karabakh conflict is resolved and the economic blockade imposed by Azerbaijan and Turkey is lifted, it is
essential that the business environment and implementation of liberal business-related legislation should be considerably improved, as investors are likely to be deterred by the high level of corruption, interference by the authorities in the conduct of business, inconsistent application of laws and bankruptcy procedures

Social aspects: GDP growth has not yet had a substantial impact on employment and poverty. Based on Integrated Living Conditions Surveys (ILCS), rapid real output growth has positively impacted on poverty indicators, but levels remain high - with a 48% overall rate of poverty and 20% in extreme poverty in 2001, compared to respectively 55% and 24% in 1999. Given the country’s limited fiscal resources, the government’s priority is to strengthen the social safety net by focusing on more efficient use of funds, better targeting the poverty benefits, sufficient funding and adequate coverage of the extremely poor.

As part of the PRSP process, the government has decided on a major improvement in financing of public health services in 2003, with a 27% increase overall of the health budget, expansion of share of primary health and adjustment of access to free basic benefits to improve targeting and ensure that a larger share of budget is spent on services provided to the poor. Utilisation rate of primary health facility by the poor has increased from 32% to 47% between 1998 and 2001, and aims at over 50% in 2003. In the field of education, the government has made considerable progress in reforming the general education system, and the budget allocation has increased from 9.5% in 1999 to 12.3% in 2001; a new law on education has been approved, providing the legal basis for school decentralisation and rationalisation. The government envisages to undertake a major new reform in university education, addressing the issue of greater autonomy for higher education institutions, accreditation systems, rationalisation of the university system and reforming admission procedures. Public expenditure for education remain however low at just over 2% GDP and this has caused a deterioration of facilities, lack of modern teaching aids and low teacher salaries added to the insufficiencies of excess capacity and overstaffing of the inherited system.

The government had planned to adopt the Poverty Reduction Strategy in Spring 2003 after a previous draft had been negatively commented by donors for focusing too much on the government’s expenditures and distribution policy, and failure to address the issue of promotion of the private sector and good governance. Further to Parliamentary elections and additional comments by donors in June 2003, the new government should adopt the National PRSP by Fall 2003.

2. TACIS NATIONAL INDICATIVE PROGRAMME 2004-2006: PRIORITIES AND SUMMARY

The Country Strategy Paper (CSP) for Armenia 2002-2006 adopted in December 2001, provides the strategic framework within which EC assistance will be provided. The CSP sets out EC cooperation objectives, policy response and priority fields of cooperation based on a thorough assessment of policy agenda and political and socio-economic situation of Armenia. The overall analysis of the CSP 2002-2006 approved in November 2001 remains valid. The Republic of Armenia (hereafter, Armenia) is committed to the implementation of the Partnership and Cooperation Agreement with the European Union, which entered into force in July 1999. 1

The EU/EC shall, in the light of the General Affairs Council’s conclusions of 26/02/01 and 09/04/01, continue to follow closely, with all interested parties, developments on the peace process concerning the conflict with Azerbaijan over Nagorno-Karabakh, including with a view to support efforts to resolve the conflict as well as in post conflict rehabilitation. Support to key infrastructure sectors, especially in the energy and

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1 Published in the Official Journal L239 of 9 September 1999.
transport sectors, is relevant in this context. De-mining actions will also form an element of reconstruction programmes in order to ensure restoration of normal living and working conditions. A solution of the conflict would most likely lead to a revision of the IP.

It is assumed that there will be no major changes, in particular with regard to the overall Government's priorities and/or the orientations of the Tacis National Coordinator – Minister of Finance of the Armenian government.

In terms of Tacis over the period 2004-2006, the EU/EC response will take the following into account.

1. **Political, economic and social developments in Armenia**, and in particular the need to support the country's National Poverty Reduction Strategy in sectors that are key to economic and social development. Vocational and higher education, decentralisation and local governance as well as pro-poor social protection and agriculture policies are, among others, top priorities.

2. **EU policy towards Armenia**, adopting an integrated approach, combining aid and policy with regard to the challenges Armenia faces. It will aim to reinforce the link between trade and development. Armenia benefits from the EU GSP system and its recent accession to the WTO is expected to foster trade and investment, a process that the EC will support. Tacis will support other Community instruments, EIDHR and FSP in particular, in order to strengthen their overall impact and increase effectiveness. Support to energy policy reform in the context of the expected closure of the Medzamor Nuclear plant is another important priority. The EU/EC will fully exploit the framework provided by the PCA; combining legislative approximation and effective implementation through capacity building and an upgraded administration is a priority;

3. **Actions by EU Member States and other international players**. It is crucial to develop synergies in order to allow Armenia to fully benefit from the assistance received in support of the PRSP. EC will build on work already carried out with the support from other donors, when targeting areas related to poverty reduction as contribution to the implementation of the PRSP.

The **Indicative Programme 2004-2006** sets out the programme in more detail, highlighting objectives, expected results and conditionality for Tacis in the priority areas of cooperation. The essential frameworks for the IP 2004-2006 are the PCA and the draft PRSP presented by the authorities at the end 2002.

The IP builds upon the approach adopted for the preceding IP 2002-2003, focusing on the same objectives and priorities for assistance; follow-up to programmes launched under IP 2002-2003 will be given special attention provided they demonstrate results and good progress on reforms’ implementation. The areas of cooperation will remain 1. **Support for institutional, legal and administrative reform**, and 2. **Support in addressing the social consequences of transition**, with the following specific objectives:

- Support to the implementation and promotion of PCA, including WTO commitments, legal approximation and implementation for business and investments, IPR, tax/customs reforms, standardisation and statistics, information technologies,
- Support to energy policy reforms, in the context of the closure of Armenian Nuclear Power Plant (ANPP), including energy savings and renewable energy policies,
- Support to regional development policy and local governance,
• Support to the reform of higher education and vocational education, including for Information Technologies’ development,
• Support to pro-poor policies in agriculture and social protection (sectors targeted by EC FSP).

The Tacis projects developed under the Action Programmes drawing on this Indicative Programme will take all necessary actions to reduce gender disparities and promote equal opportunities to men and women. Where possible and relevant, desegregated data will be utilised and produced for analysis purposes, in particular for consideration of the impact that such co-operation has on these groups.

Implementation of the 2002 Action programme has not started yet; while no major deviations in terms of priorities are proposed for 2004-2006, some adjustments might be required in the light of the implementation of the 2002 projects. This will be done when drawing up the action programmes for 2004 and 2006.

The indicative budget envisaged for the period 2004-2006 is € 20 million.
3. TACIS NATIONAL INDICATIVE PROGRAMME 2004-2006

The Tacis National Indicative Programme 2004-2006 will seek to assist the implementation of the PCA and the National Programme for Poverty Reduction of Armenia (PRSP). It will consist of the two areas of cooperation mentioned above:

3.1. Support for institutional, legal and administrative reform

3.1.1. Support to the implementation and promotion of the Partnership and Cooperation Agreement (PCA)

Background and justification

The Armenian Government has committed itself to adopt a national Programme for the implementation of the PCA. Under Article 43 PCA, Armenia shall endeavour to ensure that its legislation will be gradually made compatible with that of the Community. Articles 46 and 47 PCA call for the creation of a favourable investment climate. To this end, the Armenian Government has committed itself to adopt a national Programme for the implementation of the PCA. To support this aim, Tacis is providing technical assistance to the Government of Armenia, such as through the Armenian-European Policy and Legal Advice Centre (AEPLAC), through its “Tacis Small Project Programme: Policy Advice” and other projects. This assistance also supports the process of Armenia's implementing obligations contracted by its accession to the World Trade Organisation.

Tacis also provides assistance to the European Technical Assistance Co-ordinating Unit (TACU) for ensuring good co-ordination as far as the Government of Armenia is involved on issues related to EU/EC programmes and operations.

AEPLAC has already carried out substantial work in terms of approximation of legislation, including a benchmark study on legal approximation. It is now time to follow-up on this first benchmarking by an approach against which it will be possible to measure concrete results in the adoption and the consistent application and enforcement of new legislative and regulatory provisions.

The Government of Armenia will continue to need EC assistance to further this process, improve governance and fight corruption. Besides, PCA implementation may require assistance to specific sectors, in particular for effective implementation and enforcement of secondary legislation and administrative capacity building. The EU-Armenia Sub-committee on Trade and Economic Issues has identified these themes as hindering improvements of, in particular, the investment and business climate in Armenia.

At the same time, however, the Armenian Government needs accompanying measures to explain and deepen understanding in the public administration and in the Armenian civil society at large what are the political, economic and social values and “acquis communautaire” towards which the country sets its ambitions under the PCA.
Specific objectives

- To promote PCA implementation and assist in approximation, application and enforcement of related legislation, to assist and advise on matters related to rights and new obligations deriving from its accession to the WTO as well as continuing Tacis work in key areas for economic recovery, investment and private sector development,

- To promote administrative reform and capacity building of stakeholders from the public administration, judiciary as well as civic society for PCA-related policy reforms.

Description of programmes

Armenia and the Commission will agree on a clear benchmarking approach against which it will be possible to measure concrete results in both the adoption, the application of legislative and regulatory provisions and enforcement of legal and contractual obligations.

The programme will aim at assisting the Government in PCA legislation approximation, implementation and enforcement, in particular secondary legislation, on the basis of the areas for further work identified by AEPLAC and in the framework of the national programme for PCA implementation. Work started under previous Action programmes in support of core economic reforms will be continued, for example to support good governance, reforms related to the accession to WTO and GPA (assistance to standardisation, technical regulations, IPR, sectorial policy adjustments notably agriculture policies) and to improve investment/business environment, e.g. competition and company law, tax and fiscal reforms, legal framework for the Information Technologies sector, customs, statistics. The Statistics Programme shall assist the establishment of a functioning statistical system, notably taking into account also the monitoring of PRSP implementation.

On the basis of Comprehensive Action Work Plans by concerned agencies for implementation and enforcement of such new legal frameworks, specific projects could be considered for further assistance and capacity building. Tacis instrument "Policy Advice Programme" (SPP) will be used as appropriate.

The programme will also provide further assistance to the National Co-ordination Unit-EUTACU, as well to the AEPLAC under the Prime Minister’s Office and Ministry of Foreign Affairs as co-ordinator of the Inter-ministerial Commission for PCA implementation.

Special attention will be put on capacity building of relevant administrations, as well as of stakeholders among civic society, business and NGOs to increase their support and policy advocacy capabilities for PCA related reforms.

The programme will monitor the implementation and enforcement of legislation and advise the competent authorities whenever there are administrative, judiciary and other practices that are not in compliance with the legislation and EU standards.
Expected results

- Progress on implementation of the National programme for the PCA; achievement of deadlines (IPR, sub-committee on economy and trade); compatibility of legislation and implementation in line with international and EC practice; improvement of business climate,
- Adoption and implementation of legislative reform, improved functional management of ministerial departments; improved consistency between existing legislation and implementation,
- Optimisation of the potential deriving from WTO accession,
- Improved governance, including in customs; better quality statistics,
- Better awareness among Armenian civil society concerning values and principles underpinning PCA, securing their inputs in related reforms and monitoring implementation,
- Strengthening planning, implementation, follow-up and co-ordination capacity of the government of Armenia in relation to EU–support and related assistance programmes.

Indicators

Progress on approximation and application of legislation with EU standards and principles.

Increased foreign investment and competitiveness of domestic business.

Quality statistics, notably data monitoring the national PRSP implementation.

Conditionalities, risks and assumptions

Assistance is conditional upon proven commitment to the PCA, implementation of the corresponding national programme and steady progress in reforms, concrete evidence of the political will to reduce/eliminate the discrepancies between legislation and practical implementation and to fulfil WTO membership obligations.

Full support by authorities for capacity building in administration and civil society.

3.1.2. Support to Energy Policy

Background and justification

The EU/EC has made a commitment to assist Armenia in the context of an international effort in identifying and financing alternatives to the Armenian Nuclear Power Plant (ANPP) of Medzamor. A Strategy Paper for the design of an energy security and diversification plan for the Republic of Armenia, and a Financing and Investment Plan for the development of alternative capacities to Medzamor NPP have been elaborated in 2001 and 2002 respectively with Tacis support.
Besides developing alternative sources of energy, the government will have to adapt its overall energy policy to a new context, the closure of power generating activities and decommissioning of Medzamor nuclear plant. There will be a need to adapt the energy sector development strategy, encourage energy savings and investment in renewable energies, as well as to prepare the normative acts for decommissioning. Armenia plans to adopt a Master Plan for the development of the energy sector of Armenia, “Financial Rehabilitation and Stabilisation Plan for the Energy Sector up to 2007” in 2003/04. In addition, legislation concerning energy savings and renewable energy is on the agenda of the government.

The EC plans to organise a donors’ conference to establish a fund to support the financing of alternative sources of energy. The EC has declared its readiness to contribute to the Plan with a grant of up to €100 million, upon agreement on an early date for ceasing power generating at the ANPP.

Meanwhile, the Commission has been attentive to contribute to the operational safety of the nuclear plant and Armenia is benefiting from an assistance package of € 11 mio under the Tacis Regional Safety Action Programme 2000 now under implementation which provides on-site technical assistance and projects to improve the control system, the safety “leak before break system- LLB” and emergency primary circuit pumps system. Under the Indicative Programme 2004-2006 for the Tacis Regional nuclear safety Programme, the Commission proposes to continue on-site assistance as well as training of operators until the complete closure of the nuclear power plant.

Specific Objectives

Increased capacity to plan and implement the policies and measures accompanying the shift from ANPP nuclear energy to alternative diversified energy sources.

Description of Programmes

Assistance will be provided to the Ministry of Energy for the development of state policies and measures on the demand side for promotion of energy savings, adoption of appropriate energy efficient technologies and investment incentives, and on the supply side for efficient generating capacity to replace the ANPP, including gas, hydro and renewable. A pilot project could be envisaged to demonstrate the considerable added value of developing appropriate related policies. Any activity should build on the results of the Tacis study launched at the end of 2002 with the aim to provide a complete and sound analysis of the Armenian electricity sector based on the principle of least cost.

Assistance will be provided to the Ministry of Energy and the Armenian Nuclear Regulatory Agency for the preparation of the necessary normative acts for ANPP decommissioning; concrete steps concerning decommissioning activities could also be supported through the Tacis Nuclear Safety Programme.

Expected Results

This assistance will contribute to energy sector reform and allow Armenia to prepare for post-nuclear power system and improve overall energy use efficiency. Industries and households will invest more in energy savings and adopt improved technologies. An appropriate legal framework will attract investors to renewable energies. The normative acts for ANPP decommissioning will be developed and concrete activities started for this purpose.

Indicators
Progress towards an early closure of the ANPP and comprehensive decommissioning plan.

Efficiency of energy use; GDP per unit of energy use.

Energy savings; new generating capacity installed.

**Conditionalities, risks and assumptions**

Support is conditional on a decision on a date for early closure of the ANPP power generation operations and adoption of the corresponding strategic plan for alternative diversified power supplies and energy savings. A decision is expected to be taken in 2003 by the Armenian authorities.

### 3.1.3. Support to local self-governance and development of regions

**Background and justification**

A far-reaching law on local self-governance was adopted in 1996 and amended in June 2002. The new law delegates important powers and prerogatives to the 930 Armenian local communities (out of which 47 urban communities). This legislative initiative, unique in Southern Caucasus, is accompanied by an equally commendable financial effort, since the state budget allocated 7 billion Drams in 2002 and 10 billion Drams are foreseen for 2003 to the process of de-centralisation. (€ 1 = 635 AMD – mid March 2003).

Tacis has been supporting the development of regional administrations in three marzes (regions) of Armenia: a project under the AP 2002-2003 targets Ararat and Vayots Dzor marzes, building upon a previous successful project in Lori marz, which also led to investments with World Bank support.

**Specific objectives**

Progress in the process of decentralisation and reforms of local government and governance,

Support to implementation of socio-economic regional development plans at marz, municipal and local level,

Integration of community-driven development in institutional reform of the State and decentralisation.
Description of programmes

Assistance will be provided to both the national territorial administration bodies and directly to the regional governments as follows:

Support and advice to the Ministry of Territorial Administration and the Presidential Commission on Local Self Governments in reviewing and updating legislation identifying bottlenecks for its implementation.

However, assistance will mainly be directed to the regional administration (Marzpetarans) and local self-governance bodies for:

- the implementation of the tasks attributed to them by the new law on local self-governance, such as elaboration and implementation of regional development plans, promoting transparency and community involvement in the allocation of resources;
- improving the delivery of services, such as registration services of the local population, cadastre and social services;
- strengthening civil society (NGOs and Community Based Organisations in particular) in connection with the delivery of public services of the self-governing community bodies; this could comprise actions aimed at facilitating the relations between the administrations and the citizens through the creation of info points and increase the awareness on the rights of the citizens towards the administration as well as through mechanisms to support local development initiatives;
- capacity building/training of target local authorities and community-based organisations; this may include a training and consultancy mechanism/capacity that supports the communities in fulfilling their responsibilities and tasks according to the newly amended self-government and governance law and would involve civic society as appropriate; use of IT will be promoted as appropriate.

Expected results

Improved effectiveness and efficiency of the State and local authorities; updated legislation regarding decentralisation; increased accountability in local decision-making and timely delivery of public services; improved resource allocation and resource utilisation; in particular formulation and implementation of regional development plans including with participation of civil society and Community based organisations; Strengthened dialogue between national, regional and local administrations.

Indicators

Adoption and application of new improved legal instruments regarding decentralisation.
Submission and approval of regional development plans; Participation plans.
Increased budgetary allocations for targeted pro-poor sectors (health, education, infrastructure, extension services).
Timely provision of quality public services; coverage ratio of local population serviced (administrative and social services); operating Management information systems (MIS); network of information points.
Investments made at regional level; local investments realised; percentage increase of services provided to general public by the local administrations; volume and number of projects realised by CBOs, private sector/SMEs, NGOs,
Incidence of poverty and extreme poverty; poverty gap ratio.
Conditionalities, risks and assumptions

Risks are linked to the evolution of relations between central government, marz/regional administration, and self-governing local communities

3.2. Support in addressing the social consequences of transition

3.2.1. Support to pro-poor policy reforms in Agriculture and Social Protection

Background and justification

The National PRSP sets as its central objective to provide minimum welfare conditions to all, highlighting in particular access to food. The EC Food Security Programme provides budget support to improve the delivery of those government programmes that foster food security, particularly access to food by vulnerable groups, including through provision of targeted assistance to most needy (pro-poor policies). In Armenia, EC FSP has focused on agriculture and social protection. Tacis technical assistance to the Ministries and agencies targeted by the EC-FSP will be used to speed up policy reforms, improve effectiveness of policy-making and specific programmes, rationalise budget allocations and improve implementation and delivery of services to the target groups.

Objective

In the context of PRSP, strengthen capacity of the agricultural and social protection sectors to elaborate and implement key pro-poor reforms, in close coordination with the EC Food Security Programme.

Description of programmes

- Agriculture: the Ministry of Agriculture is developing a programme on “Sustainable Development of the Agricultural Sector”, in line with the National Food Security Strategy and the PRSP, which aims at rationalising public governance of the sector, improving efficiency of agricultural support services and critical agricultural infrastructure and increasing efficiency at the farm level. This programme will consider specifically how to best improve productivity and income for small farmers.

- Social Sector: for the PRSP social support strategy, identification and targeting vulnerable groups that most need protection. It is important to optimise use of scarce resources: the danger of poverty greatly depends on the structure of the household and number of children: households with children under 7 or having 3 or more children are most exposed to poverty threat, and rural children especially. While EC FSP is providing budget support for children living in state care institutions, approximately 60% of institutionalised children have both parents alive, but imperfections in the mechanisms of family support and admission of children in orphanages effectively provide incentives for families to institutionalise their children. This programme will consider how to improve social and economic mechanisms targeted to social protection of poor families with children, including the reform of children state care system. Tacis assistance will aim at improving policies, rationalisation and sustainability of pro-poor programmes, implementation of more efficient policy-decision making and delivery/execution of related programmes; Tacis assistance should also aim at transparent and rational programme budgeting, strengthening the budgetary expenditures capacity and accountability of the Ministries and agencies concerned.

Expected results

Improved effectiveness of policies for poverty alleviation in the agriculture and social protection sectors; strengthened budgetary expenditure capacity and more efficient use of budget in Ministries and agencies targeted. Better impact of EC FSP and strengthening of overall effectiveness of EU action, with sustainability of policy reforms.

Indicators

Reduced leakage ration, increased leverage ratio,
Reduction of Poverty level indices and poverty gap ratios; Lower children malnutrition, Improved yield, productivity and income of small farmers.

**Conditionalities, risks and assumptions**

There must be continued commitment by the Government to implement the National poverty reduction strategy and develop pro-poor focus of programmes in the ministries concerned.

Cross conditionality with the EC Food Security Programme.

3.2.2. Support to the development of vocational education and training, and reform in higher education

**Background and justification**

The development of education is one of the key priorities identified by the Government’s Poverty Reduction Strategy Paper. If accompanied by an appropriate employment policy, increased education standards will contribute to reducing poverty and improving overall economic and social conditions. About 30% of currently employed people in Armenia have undergone vocational training, and there is an increasing demand from the private sector, especially in the agriculture and services sectors, including from foreign investors.

The Government of Armenia adopted a rationalisation programme for VET in 2001. As a result, the number of VET institutions has been decreased from 90 to 72 and adapted to the manpower requirements of their regions. In addition, the number of the professions for VET has been reduced from 250 to 140, 20 of which are new, mainly connected to marketing, IT-technologies and agribusiness. All VET institutions are operating under a new framework curriculum.

The Government emphasises the link between job creation policy, economic development and the need to reduce the brain drain that has considerably affected Armenia over the last decade. Support to the development of education/vocational training under the timeframe of NIP 2004-2006 will take into account the results of the implementation of activities in the AP 2002-2003.
Two main areas will be targeted: 1) Vocational Education and Training (VET); 2) Higher education institutions (Tempus).

**OBJECTIVES**
Progress in bringing the structure and content of vocational education and technical training, from elementary to advanced (post-graduate) levels, into compliance with a market economy and thereby to contribute to job creation.

**For VET**
Building on the outcome of the VET-project under the AP 2002-03, the reforms in the VET field will continue to focus on three components:

- Policy and strategy
- VET institutions.
- Employment and labour market.

Within the component “Policy and Strategy”, Tacis will aim to support:

- implementation of policies and strategies formulated in the Law on VET presently under preparation, which foresees notably the responsibility for the whole VET system under one Ministry, in line with the planned project under AP 2002-03,
- the establishment of conditions for sustainable funding of the VET system through public/private sector collaboration?
- the concentration,
- policy co-ordination between Labour and VET authorities especially regarding the integration of initial and continuing training according to lifelong approach,
- to make it possible for social partner organisations to participate in the VET-reform planning and decision-making process (social dialogue on VET institutionalised with State, employers’ organisations and the unions), and also in the development of labor market relevant curricula and state educational standards.

Within the component “VET Institutions”, the reform will continue to work on the following aspects:

- implementation of state educational standards of VET professions/occupations, curricula and subject programmes development, and corresponding educational materials, in co-operation with social partners and business sector in the regions,
- decentralisation of decision-making structures of VET by transferring more responsibility to the local level in the framework of decentralisation.
- establishing an E-network and database of VET institutions as management tool, rolling out the experience of the 1st project phase to VET-institutions ; improving the technical base and equipment for VET institutions; setting up a specific (and drawn from the 1st phase VET project) consolidated teacher (re-)training facility for VET.
- introducing an independent body for assessment and evaluation of the quality of VET and its graduates, and their certification.

Within the component “employment and labour market”, the experience gained in the first phase project will be taken into account, notably for the involvement of local Employment services, such as the Labour Market Training Centres - together with the VET schools and Universities, in the development of labour market relevant training, with possible creation of Regional Competence Centres.

Special attention will be given to aspects relevant for IT sector development.
3.2.3. For Higher Education

Tempus will continue and reinforce supporting the reform and restructuring of the partner country’s higher education systems and their adaptation to the new socio-economic needs. It does so through interaction and balanced co-operation between institutions in the EU-Member States and the partner countries. Long-term co-operation links between partners evolve in academic recognition, credit transfer and development of joint curricula. Priority areas of Tempus activities are jointly defined by the EC and national authorities in line with the areas of co-operation in the mainstream Tacis programme. Projects address in particular: (1) curriculum development and renewal in priority areas; (2) reform and modernisation of the structure and management of higher education institutions in view of strengthening their role in the society; (3) development of skills related training to address specific higher and advanced level skills shortage during the transition, in particular through improved and extended links with industry; (4) contribution of higher education and civil society training.

In above programmes, special attention will be given to aspects relevant for the development of European Studies and the Information Technologies sector as well as for regional projects and training courses for institution building for implementation of PCA related reforms.

**Expected results**

Development of the national VETS; improved SME sector performance and employment,

Improvement in higher education management and in the quality of the academic activities and skill training in targeted fields.

**Indicators**

- number of certified courses in VET ; number of certified VET graduates; employment success rate, including in the regions; enrolment and gender ratio in VET,
- number of projects, new or updated courses and retrained staff in the HE institutes,
- functioning E-network for VETs
- results of the monitoring campaigns and feed back from the partner country representatives.

**Conditionalities, risks and assumptions**

Continued Government’s commitment to the PRSP is a basic assumption, as well as continued efforts to concentrate efforts on an effective employment policy and to link improved education standards and effective job creation policies.
Co-ordination of activities with those supported/planned by the World Bank and other donors will be continued.
Close co-ordination is needed between the Ministry of Education and Science and Ministry of Social Security..

3.2.4. Other Tacis support

Promoting a vibrant civil society remains an important component in the EU approach to democratic transition of the country. In addition to the activities described above,
support will also be provided as appropriate to Armenia through Tacis initiatives such as IBPP (Institution Building Partnership Programme - Key institutions and Civil Society) and BISTRO. Policy and legal advice will also be provided under the Tacis Small Programme "Policy Advice" as appropriate.

**Assumptions and General Conditionality**

Final adoption of the PRSP and implementation to be carried out by the Government with the assistance of other donors according to the established time table; and continued fulfilment of general macro-economic conditionalities with the IFIs,

Assistance during the period 2004-2006 is provided on the basis of the existence of the necessary elements for the continuation of co-operation through assistance, in particular respect of democratic principles and human rights, as well as of the obligations of Armenia as set out in the Partnership and Co-operation Agreement. The fulfilment of commitments undertaken by Armenia for the closure of the Medzamor Nuclear Power Plant will be considered also in the course of implementation of the Tacis Programme.

Reforms carried out under previous Tacis National Action Programmes to be completed successfully before start of second phase projects.
4. **INDICATIVE BUDGET**


The indicative budget for the Indicative Programme is € 20 million, broken down as follows:

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<tr>
<th>Priority</th>
<th>Programme activity</th>
<th>Allocation (€m)</th>
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<td><strong>Support for institutional, legal and administrative reform</strong></td>
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<td>13.5</td>
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<td>Implementation and promotion of PCA □</td>
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<td>Statistics, Customs</td>
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<tr>
<td>Energy policy reforms</td>
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<tr>
<td>Decentralisation, local self-governance and civil society</td>
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<tr>
<td>Bistro°</td>
<td></td>
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<tr>
<td><strong>Support in addressing the social consequences of transition</strong></td>
<td></td>
<td>6.5</td>
</tr>
<tr>
<td>Development of the Vocational Education/Technical Training System</td>
<td></td>
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<tr>
<td>Pro-poor targeting of agriculture and social protection policies</td>
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<td>Tempus</td>
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<td>of which 1, 5</td>
</tr>
<tr>
<td>Bistro°</td>
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<tr>
<td><strong>GRAND TOTAL</strong></td>
<td></td>
<td>20.0</td>
</tr>
</tbody>
</table>

Note:

□ Will comprise assistance for implementation and enforcement of National Programme for EU Legal Approximation, reforms related to WTO/GPA, improvement of investment/business environment such as company law, tax/fiscal reforms, IT legal framework, support to EU-TACU, AEPLAC as referred in section II.1.1 of the Indicative Programme.

° Overall, an indicative amount of € 1.2 mio has been earmarked for the Bistro programme.