

# Armenia Country Strategy

## 2019-2024

*Approved by the Board of Directors on 27 November 2019*



**European Bank**  
for Reconstruction and Development

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## Glossary of Key Terms

<b>ABI</b>	Annual Business Investment	<b>GHG</b>	Green House Gas
<b>AFD</b>	Agence Française de Développement	<b>GNI</b>	Gross National Income
<b>ASB</b>	Advice for Small Business	<b>GoA</b>	Government of Armenia
<b>BEEPS</b>	Business Environment and Enterprise Performance Survey	<b>GVC</b>	Global Value Chains
<b>BOT</b>	Build-Operate-Transfer	<b>H&amp;S</b>	Health & Safety
<b>BSTDB</b>	Black Sea Trade & Development Bank	<b>ICA</b>	Industry, Commerce & Agribusiness
<b>CoO</b>	Country of Operations	<b>IFI</b>	International Financial Institution
<b>CPI</b>	Consumer Price Index	<b>IPPF</b>	Infrastructure Project Preparation Facility
<b>CSR</b>	Corporate Social Responsibility	<b>LCY</b>	Local Currency
<b>EEU</b>	Eurasian Economic Union	<b>M&amp;S</b>	Manufacturing & Services
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>MSME</b>	Micro, Small and Medium Enterprise
<b>EE</b>	Energy Efficiency	<b>MW</b>	Mega Watt
<b>E5P</b>	Eastern Europe Energy Efficiency and Environment Partnership	<b>NBFI</b>	Non-Bank Financial Institution
<b>EIA/SEA</b>	Environmental Impact Assessment / Strategic Environmental Assessment	<b>NDC</b>	Nationally Determined Contribution
<b>EIB</b>	European Investment Bank	<b>NIF</b>	Neighbourhood Investment Facility
<b>ENA</b>	Electricity Network of Armenia	<b>NPL</b>	Non-Performing Loans
<b>ETI</b>	Expected Transition Impact	<b>ODA</b>	Official Development Assistance
<b>EEU</b>	Eurasian Economic Union	<b>PFI</b>	Private Financial Institution
<b>EU</b>	European Union	<b>PPA</b>	Power Purchase Agreement
<b>E&amp;S</b>	Environmental & Social	<b>PPP</b>	Public-Private Partnership
<b>FDI</b>	Foreign Direct Investment	<b>PSP</b>	Private Sector Participation
<b>FI</b>	Financial Institution	<b>PTI</b>	Portfolio Transition Impact
<b>GCAP</b>	Green City Action Plan	<b>RSF</b>	Risk Sharing Facility
<b>GEFF</b>	Green Economy Financing Facility	<b>SEFF</b>	Sustainable Energy Financing Framework
<b>GET</b>	Green Economy Transition	<b>SOB</b>	State-Owned Bank
		<b>SOE</b>	State-Owned Enterprise
		<b>TC</b>	Technical Cooperation
		<b>TFP</b>	Trade Finance Programme
		<b>WiB</b>	Women in Business

Armenia's commitment to and application of the political principles as stated in Article 1 of the Agreement Establishing the Bank has, over the previous Country Strategy period, been marked by a stronger emphasis on upholding democracy, pluralism and the rule of law, in particular following a peaceful change in government in April-May 2018. The new authorities have committed themselves to profound changes and Armenia's modernisation. As the reform process is at an early stage, important challenges still need to be addressed.

Entering the transition with significant social and economic challenges, Armenia embarked on an impressive growth path enabled by early implementation of structural reforms. Despite witnessing a rapid convergence, the Armenian economy stills experiences growth and private sector development constraints. Armenia remains a land-locked, Early Transition Country in a confining geopolitical situation that limits regional integration and hinders resilience of the economy, with challenges also persisting in other transition qualities. Transition gaps are particularly acute in **competitiveness** and **governance** (with competition shortfalls and weak institutions), **integration** (with internal and cross-border trade hampered by under-developed infrastructure and insufficient capital investments resulting from fiscal constraints) and **green** (with poor energy efficiency and high emissions).

Building on the reform impetus and renewed legitimacy provided by the new authorities in Yerevan, the Bank will continue its strong efforts to bolster Armenia's transition to a sustainable and full-fledged market economy, through engagement with the country's private sector and partner financial institutions, leveraging skill transfers and inflows from the diaspora and gearing ongoing reform efforts towards rooting out corruption and supporting further strengthening of good governance. Bearing in mind the country's significant fiscal space constraints, the Bank's engagement in the public sector will focus on fiscally viable solutions to the country's infrastructure gap, as well as on green economy solutions to reduce its import dependence on fossil fuels.

This, combined with efforts to uphold donor support in the form of technical assistance and co-investment grants that can be blended with EBRD's product offer, will help deliver on the following strategic priorities in Armenia for 2019-2024:

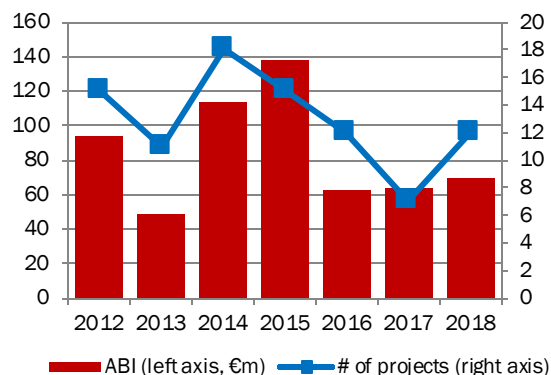
- *Strengthen private sector Competitiveness, improve Governance and support business environment reforms;*
- *Promote sustainable infrastructure through commercialisation and Green Economy Transition.*

# Armenia - EBRD Snapshot

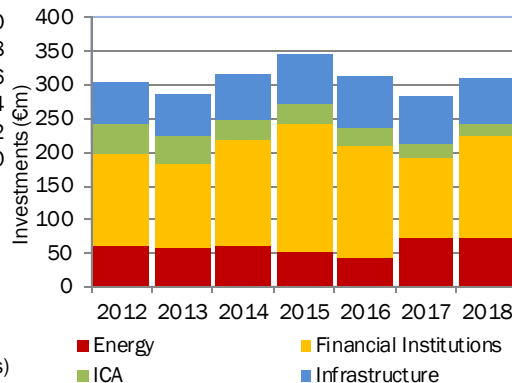
## EBRD Investment Activities in Armenia <sup>1</sup>

Portfolio	€310m	Active projects	53
Equity share	24%	Operating assets	€236m
Private sector share <sup>1</sup>	84%	Net cum. investment	€1,241m

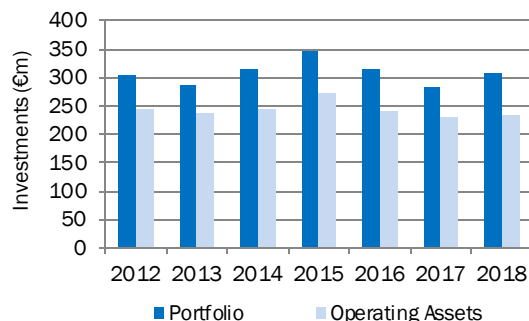
### ABI and Operations



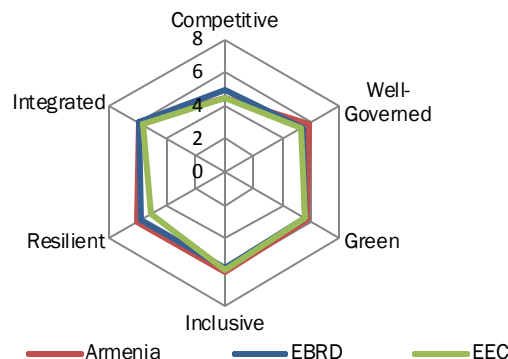
### Portfolio Composition



### Portfolio Dynamics



### Transition Gaps <sup>2</sup>



## Armenia Context Figures

	Armenia	Comparators
Population (million) <sup>3</sup> (2018)	3.0	3.5 (Moldova) 3.7 (Georgia)
GDP per capita (PPP, USD) <sup>4</sup> (2018)	10,176	7,305 (Moldova) 11,485 (Georgia)
Global Competitiveness Index (WEF) (2018)	70th Out of 140	88 <sup>th</sup> (Moldova) 66 <sup>th</sup> (Georgia)
Unemployment (%) <sup>3</sup> (2018)	16.3% (20.4%)	3.0% (Moldova) 12.7% (Georgia)
Youth unemployment (% ILO est.) <sup>5</sup> (2018)	36.7%	10.0% (Moldova) 30.4% (Georgia)
Female labour participation (% ILO est.) <sup>5</sup> (2018)	49.6%	38.9% (Moldova) 57.8% (Georgia)
Energy intensity, TPES/GDP (toe/thousand 2010 US\$) <sup>6</sup> (2016)	0.26	1.05 (Moldova) 0.58 (Georgia)
Emission intensity, CO2/GDP (kgCO2/GDP in 2010\$) <sup>6</sup> (2016)	0.42	0.45 (Moldova) 0.26 (Georgia)

<sup>1</sup> As of December 2018: Cumulative Bank Investment: 5 year rolling basis on portfolio.

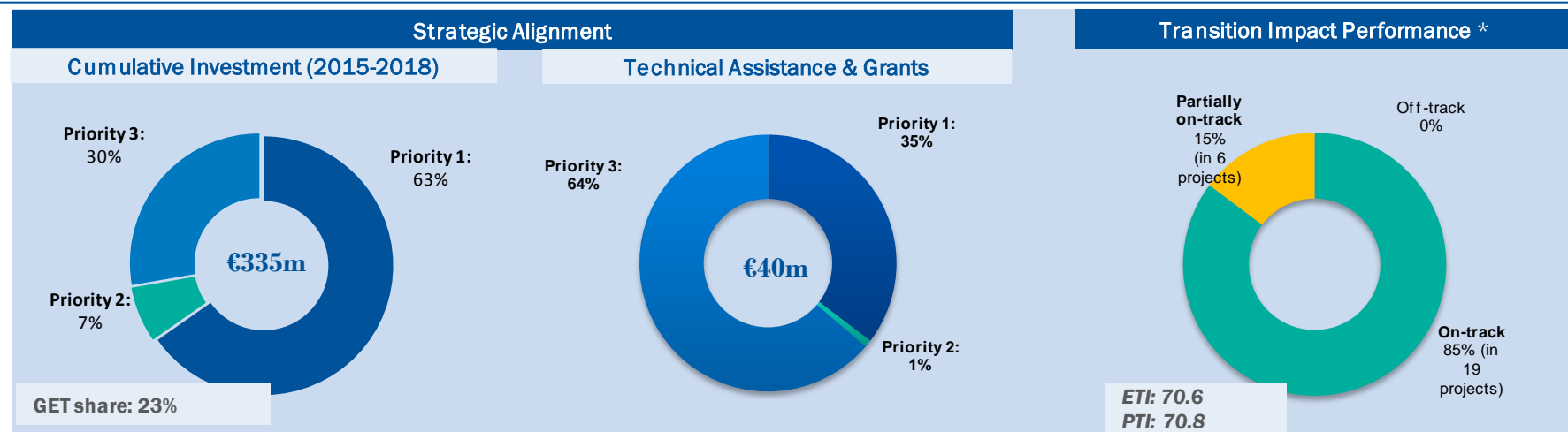
<sup>2</sup> Cf. EBRD Transition Report 2018-2019. <sup>3</sup> National Statistical Authorities., according to old and new methodologies <sup>4</sup> IMF WEO (April 2019). <sup>5</sup> WB WDI. <sup>6</sup> IEA.

# 1. Implementation of Previous Strategy (2015-2018)

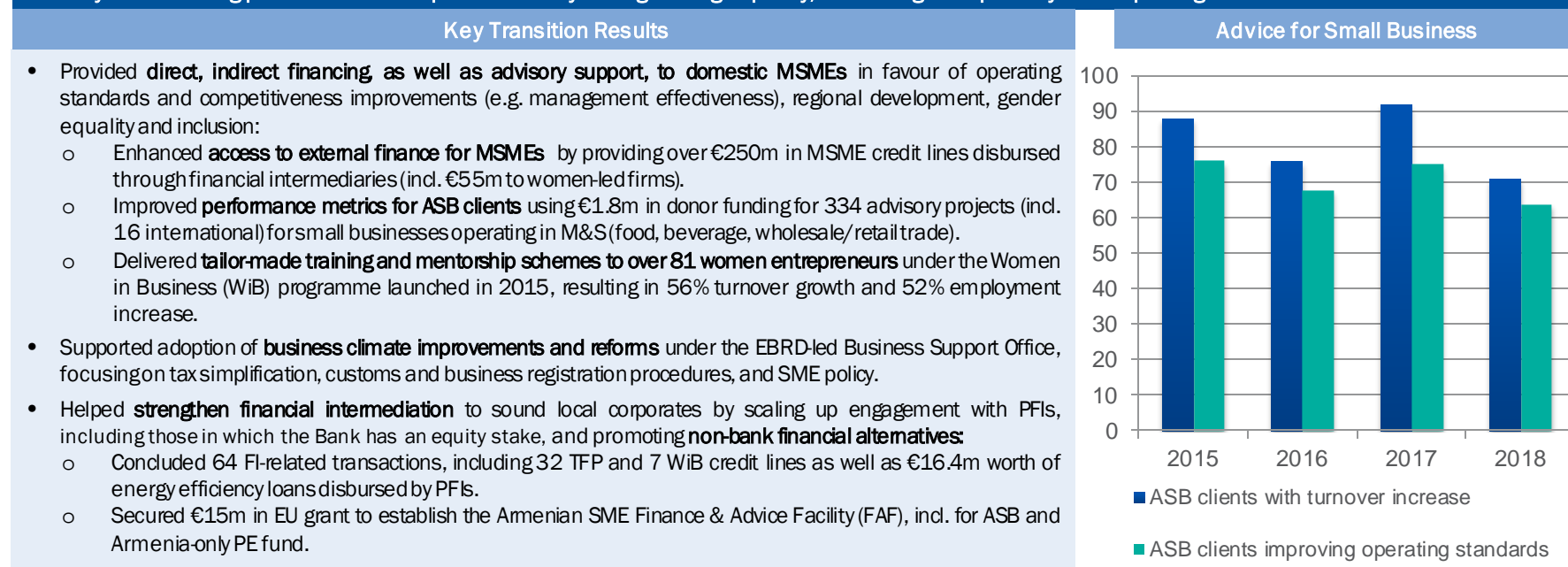


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## 1.1. Key Transition Results achieved under previous Country Strategy



### Priority 1: Enhancing private sector competitiveness by strengthening capacity, increasing transparency and improving the business environment



\* Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio.



# 1. Implementation of Previous Strategy (2015-2018)



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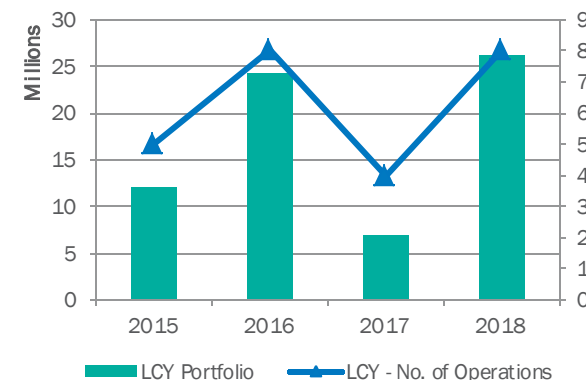
## 1.1. Key Transition Results achieved under previous Country Strategy

### Priority 2: Developing capital markets and promoting local currency financing

#### Key Transition Results

- Disbursed more than half of loans to local banks and micro-financial institutions in local currency, totalling €69,5m through 25 LCY transactions over the period 2015-2018.
- Helped strengthen and develop local capital markets:
  - Successfully engaged with Central Bank and Ministry of Finance on a MoU and produced an action plan for **Local Currency and Capital Market Development** focusing on four pillars: i) roadmap for the development of the Armenian money market, ii) corporate bond market, iii) market infrastructure, and iv) training and capacity building.
  - Conducted TC projects related to **monetary policy and local capital markets**, e.g. inflation targeting and communication, securities market and financial derivatives, Money Market Diagnostic Framework.
  - Formed a Money Market Working Group (MMWG) as a platform to discuss with its participants developments in the markets and catalyse further progress of the Armenian money markets.
- Successfully completed first repo transaction with a domestic bank under Global Master Repurchase Agreement.

#### Local currency and capital markets

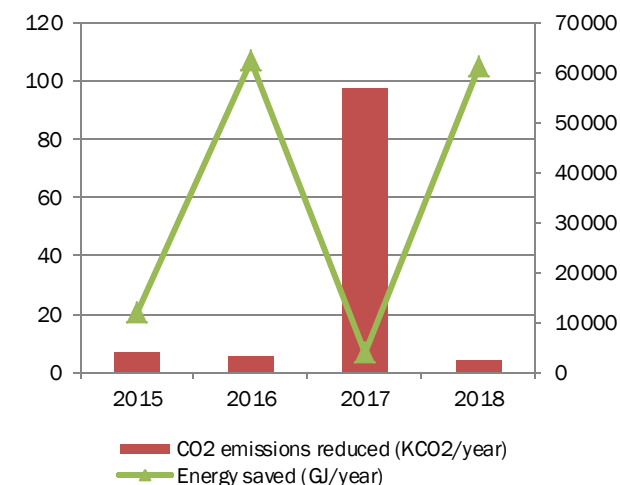


### Priority 3: Developing sustainable and commercialised public utilities

#### Key Transition Results

- Supported **improvement of operational and financial efficiency of public utilities** and fostered dialogue on public-private partnership in the context of infrastructure development.
  - Helped introduce cost-reflective **tariff reform** in utilities sector, e.g. Lease Agreement with Veolia (water and wastewater operator) – in effect since 1 January 2017.
  - Engaged with authorities on new **PPP law and regulatory framework** (pending approval by new cabinet) combined with TC study on legal and fiscal reforms in relation to a sub-sovereign lending.
- Delivered tangible results in enhancing **policy and institutional frameworks for sustainable urban planning**
  - Adopted **Yerevan Green City Action Plan (GCAP)** in 2017, including activities captured in Yerevan's 5-year development programme and paving the ground for GET-related investments in infrastructure.
  - Prepared a second **GCAP for Gyumri** in 2018 following a €14.6m sovereign project for efficient street lighting and street rehabilitation supported under E5P (2016).
  - Extended €5.5m loan to Kotayk and Gegharkunik **Solid Waste Management** project to construct the first EU-compliant solid waste landfill in the country.
- Engaged in multi-year planning with **Electric Networks of Armenia (ENA)**; dialogue on co-financing of utility-scale solar and wind power projects and high-voltage infrastructure rehabilitation.
- Supported **responsible mining through equity investment** in Lydian International. In 2017, Armenia joined the Extractive Industries Transparency Initiative (EITI), pledging to improve transparency in the mining sector.

#### Green Economy Transition



# 1. Implementation of Previous Strategy (2015-2018)



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## 1.2. Implementation Challenges and Key Lessons

### Context for Implementation

Armenia is an Early Transition Country in a confining geopolitical situation that limits integration and hinders resilience of the economy, with significant challenges also persisting in other transition qualities. Over the last strategy period (2015-2018), Armenia's economy has continued to grow and recorded 5.2% GDP growth in 2018 as the economic impact of the May 2018 peaceful revolution was limited. Governance reforms initiated by the new authorities are also expected to bear fruit. The Bank has emerged as a leading investor, delivering a very good TI, largely in the private sector. Business volume has retreated from the 2015 historical high, reflecting the dearth of "big-ticket" items and the small size of the economy, which is driven largely by remittances-fuelled consumption, historically difficult business climate, and the tight fiscal space.

### Implementation Challenges

- Temporary political and institutional uncertainty before and after the May 2018 "Velvet Revolution".
- Monopolistic structure of the economy, including interdependence between political and business spheres, stifling competition.
- Low levels of corporate investment and historically challenging business climate hampering FDI.
- Underdeveloped local capital markets.
- Severe fiscal space limitations and gaps in administrative capacity limit prospects for public infrastructure development, PPPs and SOE commercialisation.
- Volatile regional geo-political environment and unresolved Nagorno-Karabakh conflict negatively impact cross-border integration.

### Key Lessons & Way Forward

- Seize opportunities for deeper engagement with the new reform-oriented government.
- Promote de-monopolisation, business climate and governance improvements at the country and corporate levels.
- Engage with the Armenia Diaspora investors across sectors (e.g. corporate, tourism) to encourage FDI.
- Continue work on capital market development and local currency financing; seek opportunities to support banking sector consolidation and scale up frameworks for financial sector.
- Pursue a proactive approach to drive commercialisation and efficiency improvements in the public utilities sector.

## 2. Economic Context



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### 2.1 . Macroeconomic Context and Outlook for Strategy Period

#### Armenia - Main macroeconomic indicators

	2015	2016	2017	2018
GDP growth (% y-o-y)	3.2	0.2	7.5	5.2
CPI inflation (% avg.)	3.7	-1.4	1.0	2.5
Government balance (% GDP)	-4.8	-5.5	-4.8	-1.6
Current account balance (% GDP)	-2.7	-2.1	-3.0	-9.4
Net FDI (% of GDP)	-1.5	-2.5	-1.9	-2.0
External debt (% GDP)	84.5	94.4	91.3	87.8
Gross reserves (% GDP)	16.8	20.9	20.0	18.1
General gov't gross debt (% GDP)	43.6	51.5	53.5	51.3
Unemployment (% pop.)	18.5	18.0	17.8	20.4
Nominal GDP (\$bn)	10.6	10.5	11.5	12.4

- **Entering the transition as one of the poorest countries in the region, Armenia embarked on an impressive growth path enabled by early implementation of structural reforms.** Since gaining independence, Armenia's real GDP and income approximately quadrupled, marking the strongest income convergence among CIS countries and wider. Nevertheless, due to the low initial starting point and uneven transition in the latter years, Armenia continues to face a convergence gap in terms of living standards. GDP per capita stood at USD 4,188 in 2018.
- **The new government has embarked on an ambitious reform programme in the face of complex challenges.** Building on high legitimacy and strong popular support, the authorities took resolute steps to deliver on the declared commitment to root out corruption, decrease the size of the shadow economy, alleviate tax evasion and tackle monopolies. However, challenges remain. Governance and competition shortfalls weaken business environment. Internal connectivity and cross-border integration is hampered by underdeveloped infrastructure, while execution of existing and initiation of new growth-enhancing capital investments are affected by the limited fiscal space.
- **Economy is growing at a robust pace.** Following near-stagnation in 2016, GDP growth recovered strongly to 7.5% in 2017 and 5.2% in 2018. Output expansion was driven by private consumption strengthening amid recovery in remittances, as well as export growth. Following Armenia accession to the EAEU in 2015, exports to the EAEU doubled in nominal US dollars and its share in total exports increased from 21% in 2014 to 29% in 2018. The macroeconomic environment remains generally sound. Despite the widening of the current account deficit in 2018, dram remained relatively stable against the US dollar. Gross international reserves stood at US\$ 2.4 billion in September 2019, providing approximately 4 months of imports coverage. To ensure flexibility and counter-cyclicality of the fiscal policy and an optimal structure of public expenditures, the Armenian authorities adopted new fiscal rules and embarked on a fiscal consolidation path. Armenian economy is projected to maintain strong growth momentum with real GDP growth at 6.0% in 2019 and 2020 (EBRD Regional Economic Prospects, November 2019).
- **Government reform efforts are supported by the new IMF programme.** Initiated in May 2019, three-year precautionary Stand-By Arrangement (SBA) aims to maintain macroeconomic stability while promoting higher and more inclusive growth.



## 2. Economic Context

### 2.2. Key Transition Challenges<sup>1</sup>

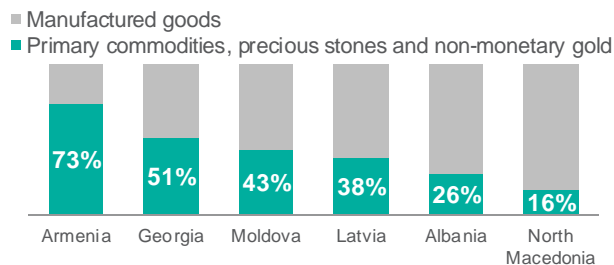


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#### Competitive (4.51)

- Despite improvements, weaknesses in the business environment remain.
- Competition traditionally constrained by monopolistic and oligopolistic market structures, as well as regulatory and enforcement limitations in the area.
- Labour productivity is below the EBRD and the OECD averages; resources are locked in low-productivity activities and goods export basket is dominated by low value-added products.
- Infrastructure barriers affect external competitiveness.
- Difficulties in complying with ISO international standards and best practices.
- SMEs face challenges in access to finance and in availability of suitable business skills and standards.
- Weak innovation ecosystem and shortage of highly skilled labour constrain innovation.
- Emigration depletes human capital.

Structure of goods exports  
Share in total, in 2018

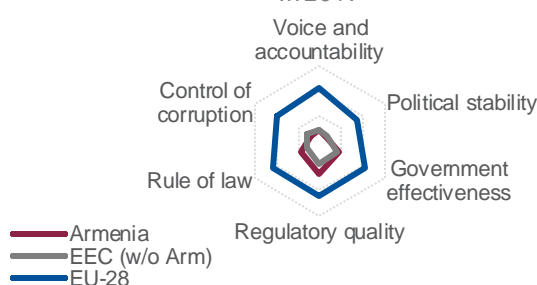


Source: UNCTAD, EBRD calculations

#### Well-Governed (5.81)

- Regulatory burden remains heavy and convoluted in some areas; public administration reform needs to continue.
- Initial success in broadening the tax base and increasing tax collection compliance need to be supported by simple and fair tax code and efficient and transparent tax administration.
- Weak institutions and significant levels of informality contribute to creating uneven playing field for the private sector.
- Efforts to tackle corruption need to continue and to be institutionalised in a way that does not negatively affect regular operations of the private sector.
- Judiciary weaknesses need to be addressed and the rule of law strengthened.
- Efforts to improve insolvency resolution framework need to advance.
- Corporate governance standards are weak and not strictly enforced.

Worldwide Governance Indicators  
In 2017

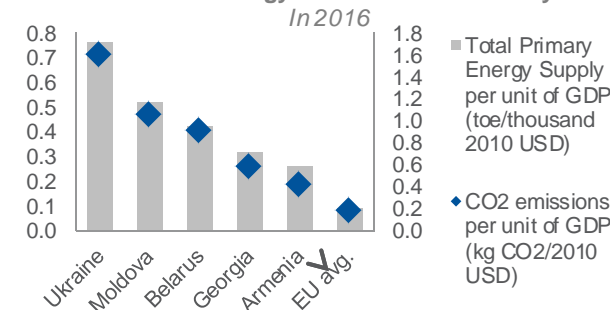


Source: WB WGI, EBRD calculations

#### Green (5.76)

- Levels of energy intensity and emissions are higher than in the EU on average.
- Poor energy efficiency in residential buildings which consume significantly more energy compared to the EU.
- Implementation of energy efficiency regulations is a challenge.
- Energy infrastructure needs to be modernised, including power generation facilities.
- SMEs undertaking energy and resource efficiency measures need technical or financial support.
- Overarching road map to increase renewable energy share with clear targets should be adopted.
- Vulnerability to climate change impacts.

Levels of energy and emission intensity  
In 2016



Source: International Energy Agency

1. See EBRD Country Diagnostic for more details. Provisional transition scores measured on a 1-10 scale, where 10 represents the frontier – subject to change as methodology is finalised.

## 2. Economic Context

### 2.2 . Key Transition Challenges

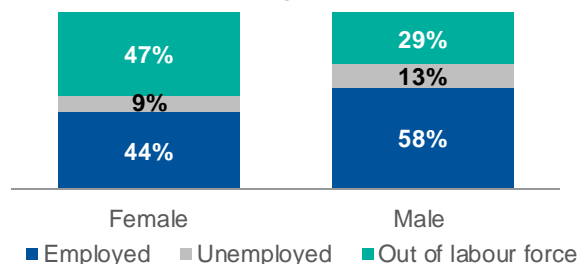


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#### Inclusive (5.95)

- Women labour force participation rate is lower than of men, access to finance is limited, female participation in business ownership is low, childcare services are poor, gender pay gap is significant, albeit decreasing.
- Educational attainment levels in Armenia are rising, but skills mismatch across sectors persists; there is space to improve on-the-job training.
- High share of youth unemployment as well as of youth neither in education nor in employment.
- Limited access to business services, poor quality of infrastructure and transport connections and absence of trade and transport connections with two immediate neighbors contribute to regional inclusion challenges.
- Limited employment opportunities for youth and in regions outside of Yerevan contribute to outward migration.

Structure of working age population  
In 2017

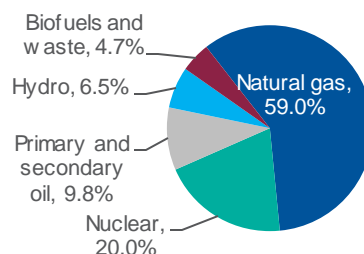


Source: Statistical Committee of the Republic of Armenia, EBRD calculations

#### Resilient (6.08)

- Relatively fragmented banking sector with potential need for further consolidation to improve efficiency and profitability.
- Credit penetration low compared to more developed countries.
- Highly-dollarised balance sheets exposing banks to potential risks.
- Asset quality is susceptible to foreign exchange-related risks.
- Small non-bank sector, underdeveloped capital markets.
- Heavy reliance on imported gas from undiversified sources.
- Governance and incentive mechanisms in the energy sector are important to encourage investments, including into solar energy which has high potential.

Structure of total primary energy supply  
In 2016

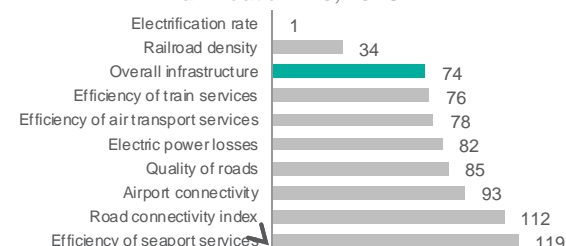


Source: International Energy Agency, EBRD calculations

#### Integrated (5.98)

- Dependence on Georgia for access to largest external markets.
- There is space to decrease cost of trading.
- Low FDI stock and inflows; FDI flows below the regional and EBRD countries' averages.
- Lack of and poor quality of transport infrastructure and logistics; road safety is a particular issue.
- Limited fiscal headroom and capacity of the public administration affects execution of existing and new infrastructure projects.
- Municipal infrastructure, water and waste water systems, and solid waste sector need improvements.

WEF Global Competitiveness Index  
Rank out of 140, 2018



Source: World Economic Forum

# 3. Government Priorities and Stakeholder Engagement

## 3.1. Government Reform Priorities

The **Armenia Development Strategy for 2014-2025** provided a roadmap to increasing the welfare of the society and was based on the following four priorities:

1. High quality job creation ;
2. Development of human capital ;
3. Improvement of social protection system ;
4. Modernisation of public administration and governance.

After the peaceful “Velvet Revolution” in May of 2018, the new authorities outlined new priorities to ensure inclusive economic development, including:

- **Promoting science, technology and innovation ;**
- Increasing the efficiency, standards and profitability of the **agricultural sector ;**
- **Developing tourism** as an engine for growth and job creation ;
- Establishing **effective, accountable and transparent governance** to support Armenia’s development.

The Government is currently comprehensively reviewing the strategic development framework in terms of a long-term national development plan, sectoral and horizontal strategies. Public administration reform strategy is planned to be ready for implementation from 2020.

## 3.2. EBRD Reform Areas Broadly Agreed with the Authorities

- Business climate improvement measures, through investment climate-related policy advice, analytics and capacity building ;
- Local currency and money markets development ;
- Capacity building and institutional strengthening in the area of competition policy ;
- Corporate governance improvement both through operations and policy dialogue ;
- Insolvency legislation and judicial capacity building ;
- Public-private partnerships.

## 3.3. Key Messages from Civil Society to EBRD

- Continue promotion of corporate transparency and governance improvement measures ;
- Support the national anti-corruption and de-monopolisation efforts ;
- CSOs’ access to information re. the Bank’s current and prospective projects ;
- Vigilance to avert negative social and environmental effects of investment projects ;
- The political assessment annexed to the Country Strategy praised for being an adequate reflection of Armenia’s context.

# 4. Defining EBRD Armenia Country Strategy Priorities



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What needs to change ? (Country Diagnostic)	Can it be changed ? (Political Economy)	What can the Bank do ? (Institutional Capabilities)	Strategic Priorities 2019-2024	What We Want to see
<ul style="list-style-type: none"> <li>Weak institutions, high albeit decreasing perceived corruption and prevalent informality have traditionally constrained competition and held back private sector performance.</li> <li>Challenging business environment and weak corporate governance standards are further constraints on private sector growth.</li> <li>Export basket is dominated by primary commodities and limited low value-added manufacturing.</li> <li>Natural resources sector has potential for modernisation and standards improvements.</li> </ul>	<ul style="list-style-type: none"> <li>The new government has been challenging the status quo following the 2018 Velvet Revolution and shows commitment to tackle corruption and modernise public governance.</li> <li>Ongoing reform momentum, if sustained, can provide enabling environment for private sector.</li> <li>Significant customs reforms have already been launched.</li> <li>Public expectations for tangible economic and social improvements are high, while the challenges are complex.</li> </ul>	<ul style="list-style-type: none"> <li>Direct and indirect financing and advisory for SMEs and corporates, including MSME credit lines, financing for regional development and underserved groups.</li> <li>Tailored products to attract foreign investors and support expansion of local companies.</li> <li>Promotion of best international standards for responsible and inclusive mining.</li> <li>Targeted policy engagement on business climate and economic reforms.</li> <li>Support relevant initiatives in areas of public administration and public finance management.</li> </ul>	<p><b>Strengthen private sector competitiveness, improve governance and support business environment reforms</b></p>	<ul style="list-style-type: none"> <li>Strengthened capacity of SMEs and corporates to grow and add value; Enhanced exports and increased trade and investment flows.</li> <li>Broader access to finance, in particular for underserved segments.</li> <li>Improved economic governance and greater competition.</li> </ul>
<ul style="list-style-type: none"> <li>Development of renewable energy and energy efficiency solutions would help improve country's energy security as well as green economy transition.</li> <li>Internal and external integration is constrained by the lack of and poor quality of infrastructure, which increase the costs of trade, restrict access to markets and reduce FDI attractiveness.</li> <li>Infrastructure and key sectors are vulnerable to physical climate risks.</li> <li>Transport barriers increase the costs of trade, restrict access to markets and reduce the FDI attractiveness of the country.</li> </ul>	<ul style="list-style-type: none"> <li>The government is committed to developing the renewable energies. Solar energy can be competitive thanks to highly favourable climate conditions and global trend of decreasing costs.</li> <li>The government supports private investments important for energy security and service quality</li> <li>Limited fiscal capacity for large scale public sector investments.</li> <li>Land-lock location and regional geopolitics create challenges for global integration, both for trade and energy linkages.</li> </ul>	<ul style="list-style-type: none"> <li>Strong track record in financing and advice on bankable renewable energy projects.</li> <li>Dedicated products to finance green economy investments, incl. resource/energy efficiency and climate resilience.</li> <li>Experience in structuring and financing infrastructure upgrades taking into account public finance constraints, including sovereign deals, PPPs / concessions.</li> <li>Strong track record of close coordination with the EU, other IFIs and donors to address affordability and implementation capacity constraints.</li> </ul>	<p><b>Promote sustainable infrastructure through commercialisation and green economy transition</b></p>	<ul style="list-style-type: none"> <li>Increased renewable energy capacity, more diversified energy mix.</li> <li>Commercialisation and restructuring of public utilities and SOEs. Improved performance, service delivery and sustainability of municipal infrastructure.</li> <li>Improved quality and connectivity of transport, communications and energy networks.</li> </ul>

# 5. Activities and Results Framework

## Priority 1: Strengthen private sector competitiveness, improve governance and support business environment reforms

Key Objectives	Activities	Tracking Indicators (Outcomes)
<p>Strengthened capacity of SMEs and corporates to grow and add value</p> <p>Enhanced exports and increased trade and investment flows</p>	<ul style="list-style-type: none"> <li>Provide direct and indirect financing, as well as full range of advisory services, to MSMEs under the Small Business Initiative, including for trade competitiveness and value chains enhancement.</li> <li>Support introduction of innovative climate technologies by clients through the Finance and Technology Transfer Centre for Climate Change (FINTECC).</li> <li>Financing for natural resources, focusing on sustainable, climate-smart and responsible mining, combined with policy engagement on systematic disclosure and increased transparency (EITI).</li> <li>Seek opportunities in the areas of Industry, Commerce and Agriculture by engaging with acceptable local private investors, advancing existing relationships, and fostering quality FDI and skills transfer (incl. from the diaspora).</li> <li>Support increased trade through the Trade Facilitation Programme (TFP) and advisory services.</li> </ul>	<ul style="list-style-type: none"> <li>Number of advisory clients reporting increased productivity, turnover and exports</li> <li>Total number/ volume of TFP transactions supported</li> </ul>
<p>Broader access to finance, in particular for underserved segments</p>	<ul style="list-style-type: none"> <li>Targeted FI lending frameworks and advisory for partner banks and end-beneficiaries, including for MSMEs, regional development and inclusion (e.g. Women in Business).</li> <li>Targeted lending framework in energy efficiency with partner banks.</li> <li>Foster an equity culture and facilitate equity investments.</li> <li>Work with companies and partner financial institutions using new financing instruments, including Risk-Sharing Facility (RSF), capital market instruments (e.g. corporate bonds) and local currency loans.</li> <li>Policy engagement on local currency, money and capital market (such as enhancing money market, including repo, supporting the development of the money market benchmark via money market working group, development of derivatives, crowd-funding, capacity building) in close cooperation with development partners.</li> </ul>	<ul style="list-style-type: none"> <li>Total number/volume of MSME loans disbursed (incl. LCY, WiB)</li> <li>New financing instrument or method introduced</li> </ul>
<p>Improved economic governance and greater competition</p>	<ul style="list-style-type: none"> <li>Scale up capacity-building for reforms, including: <ul style="list-style-type: none"> <li>Business climate (incl. business and investors council, investment climate related measures, potential for business complaints mechanism and gender-sensitive investment climate improvement), reforms-related institutional capacity building for the government;</li> <li>Competition authority and public procurement;</li> <li>Insolvency (incl. strengthening regulatory framework for insolvency practitioners, support to insolvency court, insolvency manual and training);</li> <li>Judicial capacity-building/ training.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Legal, institutional and regulatory improvements to the business environment</li> </ul>

**Impact Indicator:** - Structure of goods exports (Baseline: Primary commodities 73%, Manufactured goods 27%)  
- Worldwide Governance Indicators (Baseline: Rule of Law -0.16; Regulatory quality 0.28; Control of corruption -0.56; Political stability-0.71 Government effectiveness -0.1; Voice and accountability-0.56)

PUBLIC

Well-Governed



Competitive



# 5. Activities and Results Framework



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## Priority 2: Promote sustainable infrastructure through commercialisation and green economy transition

Key Objectives	Activities	Tracking Indicators (Outcomes)
Increased renewable energy capacity, more diversified energy mix	<ul style="list-style-type: none"> <li>Explore new opportunities in greenfield and brownfield investments, prioritizing utility-scale renewables, grid strengthening and high-voltage network rehabilitation, hydropower and gas-fired power plants, energy efficiency measures, introduction and expansion of smart metering.</li> <li>Support introduction and implementation of Renewable Energy Auctions.</li> <li>Continue engagement with Electric Networks of Armenia (ENA): governance and infrastructure investments.</li> </ul>	<ul style="list-style-type: none"> <li>Renewable electricity capacity added (MW)</li> <li>Legal, regulatory or institutional improvements in energy sector (RE/EE)</li> </ul>
Commercialisation and restructuring of public utilities and SOEs  Improved performance, service delivery and sustainability of public infrastructure	<ul style="list-style-type: none"> <li>Commercialisation of public utilities and services, including through private sector participation (e.g. municipal services, postal services).</li> <li>Policy engagement on infrastructure delivery, incl. project development and business case justification with support from IPPF, capacity building, and PPP readiness (legal and regulatory framework for PPPs).</li> <li>Support public infrastructure development (e.g. transport, municipal infra, urban regeneration and sustainable development, energy efficiency and improved climate resilience in public infrastructure and buildings), including with private sector participation.</li> <li>Engage with cities, including through Green City Action Plans, for cross-sectoral sustainable infrastructure investment.</li> <li>Water resource management (e.g. water reservoirs, irrigation and water use in agriculture).</li> </ul>	<ul style="list-style-type: none"> <li>Improved quality of infrastructure</li> <li>Legal, regulatory or institutional frameworks in infrastructure (CGAP) improved</li> </ul>
Improved quality and connectivity of transport, energy and communications networks	<ul style="list-style-type: none"> <li>National and cross-border interconnectivity infrastructure, incl. increasing safety of transport corridors, border crossing and telecommunications networks.</li> <li>Explore opportunities to enhance regional trade flows via improved logistics.</li> <li>Improve climate resilience of energy and transport infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>Improved quality of infrastructure within and/or across regions</li> </ul>





# 6. Mapping of International Partners' Complementarity in EBRD Business Areas

EBRD BUSINESS AREAS														
		Sectors									Cross-cutting Themes			
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		Financial Institutions		Strategic Initiatives			
Indicative average annual investments/ grants (€m, 2015-2018), excluding budget support		Agribusiness	Manufacturing & Services	Property & Tourism	ICT	Natural resources	Energy	Infrastructure	Banking	Non-Bank Financial Institutions	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business
ADB	74													
BSTDB	26													
EU	33													
EIB	44													
IBRD (WBG)	76													
IFC (WBG)	75													
AFD	31													
KfW	54													
EBRD	84													
<div>  Area of significant investments                      Area of significant policy engagement                 </div> <div>  Focus mostly on private sector                      Focus mostly on public sector                 </div>														

## Potential Areas of Cooperation



### Competitive

- Work with EU to enhance access to finance, implement *inter alia* MSME, regional development and energy efficiency lines.
- Work with EU and other donors to provide business advisory services.



### Green

- Work with the EU, EIB, IFC (WBG) and other co-financiers to improve energy infrastructure and develop renewable energy and energy efficiency.



### Integrated

- Improve transport and connectivity infra-structure together with EU, EIB and other potential co-financiers.



### Resilient

- Work with the EU to enhance access to finance, implement *inter alia* SME, regional development and energy efficiency lines
- Provide business advisory services with EU support.

# 7. Implementation Risks, Environmental and Social Implications



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Risks to Strategy Implementation	Probability	Effect
▪ Lack of sustained economic growth and currency stability needed to relax fiscal space and constraints associated with public debt affordability.	Yellow	Red
▪ Stalled political process and uncertainty around reform momentum aimed at de-monopolising the economy, breaking up oligarchic cartels and rooting out corruption.	Yellow	Yellow
▪ Slow progress in deepening engagement with the EU – within the limits afforded by the EAEU membership.	Green	Yellow
▪ Volatile regional security situation.	Yellow	Red
▪ Insufficient levels of diaspora and non-diaspora FDI as a result of ongoing political changes.	Green	Yellow
▪ Insufficient grant funding and long-term local currency financing on competitive terms.	Yellow	Yellow

Environmental and Social Implications
<ul style="list-style-type: none"> <li>▪ <b>Strategic Planning , Assessment and Management of Environmental &amp; Social Impacts, Stakeholder Engagement:</b> Aim to improve knowledge and practice of ESIA decision makers and clients and facilitate improved stakeholder engagement. Strategic planning by the regulatory authorities will become increasingly important and EBRD will support holistic decision making such as EIA/SEAs. TC funds to support these and other activities may be needed.</li> <li>▪ <b>Labour and Working Conditions:</b> The Bank will ensure that clients' HR policies and labour practices comply with EBRD PR2. The Bank will pay particular attention to potential discrimination towards women, minority groups as well as migrant and non- employee workers.</li> <li>▪ <b>Resource Efficiency and Pollution Prevention and Control:</b> The Bank's investment priorities will help reduce GHG emissions. The Bank will aim to support the development of circular economy and waste management projects, including infrastructure and systems to encourage separation at source and recycling.</li> <li>▪ <b>Health and Safety:</b> Aim to improve health and safety standards across all sectors. Road and traffic safety including fleet management are priority issues and engagement with clients and other stakeholders may be required. TC funds to support these activities may be needed.</li> <li>▪ <b>Land Acquisition, Involuntary Resettlement and Economic Displacement:</b> Experience of large scale land acquisition in accordance with the EBRD projects is not well tested. The Bank will encourage clients and government entities to improve consultation and information provision with affected people. Where occupiers have no legal title, clients will need to ensure compensation and livelihood restoration are provided in accordance with the Bank's requirements.</li> <li>▪ <b>Biodiversity Conservation and Sustainable Management of Living Natural Resources:</b> administration of protected areas is variable in country and the EBRD will work with regulators and clients to ensure that national and international obligations of the host government can be met through the EBRDs projects. TC funds to support these activities may be needed.</li> </ul>

# 8. Donor Co-Financing Assessment

## 8.1. Needs Assessment for the New Country Strategy Period

Donor funding will be required to achieve the strategic objectives of the Country Strategy, including for:

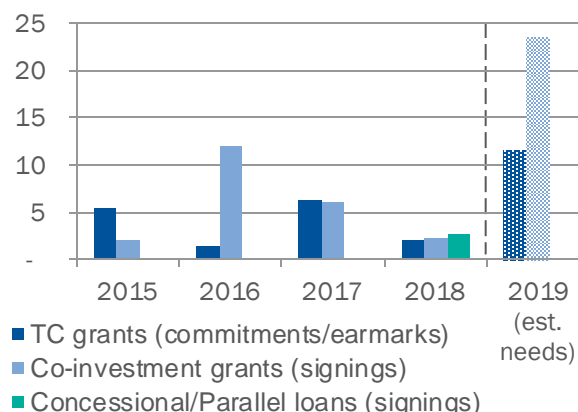
- Risk mitigating instruments to promote local currency lending, increase affordability and access to finance for underserved populations;
- Supporting new investments in renewable energy and energy efficiency, including grant funds channelled through partner financial institutions;
- Preparation and implementation of sustainable municipal and transport infrastructure projects, and support for corporate development plans;
- Promoting reforms which strengthen the investment climate and governance as well as enhance judicial capacity;
- Advisory services to promote SME competitiveness and value added.

### Selected Affordability Indicators

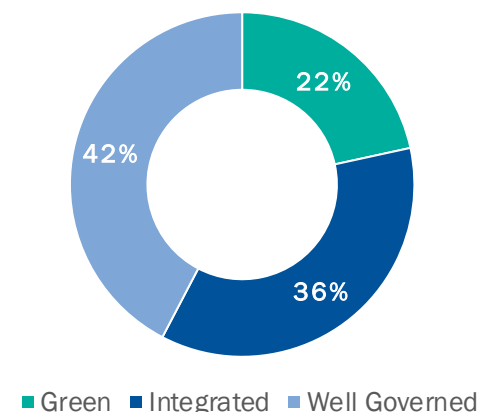
		EBRD regional percentile rank <sup>1</sup>
GDP per capita (PPP, current. \$) <sup>2</sup>	10,176	19 <sup>th</sup> (CoOs)
ODA Country	YES	N/A
ODA as share of Gross National Income (%) <sup>3</sup>	2.12	48 <sup>th</sup>
ODA per capita (\$ - current prices) <sup>3</sup>	87.17	60 <sup>th</sup>

Sources: <sup>2</sup> IMF (2018), <sup>3</sup> OECD (2017)

### Donor finance during last strategy (€m)<sup>4</sup>



### Grant Funding Needs<sup>5</sup>



## 8.2. Potential Sources of Donor Funds

- The **EU** remains the important source of donor funding, primarily through the bilateral allocation and the Neighbourhood Investment Platform (NIP). Potential funding opportunities can be explored in sectors such as SME development, infrastructure and energy efficiency.
- Funding provided by the **Green Climate Fund (GCF)** for the Green Cities Facility may be drawn upon to support investments in sustainable municipal infrastructure. The Bank will also examine other opportunities funded by GCF instruments as well as additional support available from the **Climate Investment Funds (CIF)**.
- Armenia is eligible for funding from the Eastern Europe Energy Efficiency and Environment Partnership (**E5P**) including for green municipal projects.
- Additional support from **Multi-Donor Accounts** will also be explored. Potential funding sources include the Early Transition Countries (ETC) Fund, the SME Local Currency Special Fund for supporting SME access to local currency financing, and the Small Business Impact Fund (SBIF) for supporting SME development and growth.
- The **Shareholder Special Fund (SSF)** is an important complement to donor resources, including for measures to support the investment climate.

1. Simple percentile rank reported as the share of EBRD countries (ODA CoOs in the case of ODA indicators) that are represented below Armenia.

4. The 2015 TC data is based on commitments as at the end of March 2016 (the latest available date before data migration to a new Donor Funds System). 2016-2018 TC data is based on earmarks at the project level. Co-investment grants and concessional/parallel loan amounts are based on client signings.

5. Estimated grant funding needs are based on the operational needs reported by banking teams for projects to be signed in 2019. Estimated funding needs generally exceed actual grant use as some needs may not materialise, may be delayed, or may be split into several years of fundraising efforts due to operational needs and realities.



## Annex



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Armenia's commitment to and application of the political principles as stated in Article 1 of the Agreement Establishing the Bank has, over the previous Country Strategy period, been marked by a stronger emphasis on upholding democracy, pluralism and the rule of law, in particular following a peaceful change in government in April-May 2018. The new authorities have committed themselves to profound changes and Armenia's modernisation. As the reform process is at an early stage, important challenges still need to be addressed.

Mass anti-government protests in April-May 2018, which are described as a non-violent "velvet revolution", led to a peaceful change of power. The revolution has raised high the expectations among Armenian citizens for strengthening democracy, human rights and the rule of law, and has created a unique opportunity for wide-ranging reforms, after years of uneven transition.

The change of power was institutionalised in the early parliamentary elections in December 2018, praised by international observers as held "with respect for fundamental freedoms". The elections have resulted in a reset of Armenia's political landscape: The ruling "My Step" alliance of the revolution leader and Prime Minister Nikol Pashinyan gained a landslide victory, having received 70.4% of the vote, while the ex-ruling Republican Party of Armenia failed to cross the 5% threshold. Prosperous Armenia and Bright Armenia came distant second and third (8.3% and 6.4% of the vote respectively) and became the only other two parties that have entered the new parliament.

Building on strong popular support, the new government has embarked on an ambitious reform programme, aiming at democratising political system and dismantling the political economy model in which politics are intertwined with business. The government has taken some resolute steps, in particular making progress in the fight against corruption and to improve good governance and the rule of law. The overall situation with human rights has also improved. Nevertheless, to make reforms systemic and sustainable, strong political will needs to be reinforced by strengthened institutions and enhanced administrative capacity. Strengthening the independence, efficiency and accountability of the judiciary is a particularly important task. Armenia has also yet to adopt a comprehensive anti-discrimination law in line with international standards.

Following the constitutional amendments adopted through the December 2015 referendum, Armenia has shifted from a semi-presidential to a parliamentary republic, completing transition in 2018. In the new system, Prime Minister (PM) enjoys strong executive powers.

Armenia has been a member of the Eurasian Economic Union (EAEU) since January 2015. In parallel, it signed a Comprehensive and Enhanced Partnership Agreement (CEPA) with the European Union (EU) in November 2017, which entered into provisional application on 1 June 2018. By signing the CEPA, Armenia has further reaffirmed its commitment to strengthening democracy, human rights and the rule of law. In all these endeavours the country has cooperated closely with the Council of Europe, the OSCE and the United Nations.

Armenia's regional and geopolitical context is complex. The conflict with Azerbaijan over Nagorno-Karabakh remains unresolved, and efforts at international mediation by the OSCE Minsk Group, co-chaired by France, Russia and the United States, continue.

## ***Free Elections and Representative Government***

### ***Free, fair and competitive elections***

The Constitution of Armenia guarantees free elections held on the basis of universal, equal and direct suffrage, by secret ballot.

During the last Country Strategy period Armenia held two parliamentary elections, in April 2017 and in December 2018, both under a new and complex two-tier proportional system: a closed national list and 13 open district lists.

The OSCE/ODIHR-led International Election Observation Mission (IEOM) assessed the April 2017 elections as "well administered" and with fundamental freedoms "generally respected." At the same time, international observers established that the elections were "tainted by credible information about vote-buying, and pressure on civil servants and employees of private companies", which contributed to "an overall lack of public confidence and trust in the elections."<sup>1</sup>

<sup>1</sup> OSCE/ODIHR Election Observation Mission (EOM): Republic of Armenia, Parliamentary Elections, 2 April 2017, Final Report, Warsaw, 10 July 2017, p. 1.



The December 2018 elections were early elections, which followed the political changes in the country after the mass anti-government protests in April-May 2018. In an important difference from the April 2017 polls, the OSCE/ODIHR-led IEOM concluded that the December 2018 elections “were held with respect for fundamental freedoms and enjoyed broad public trust.” Observers praised the open political debate, which contributed to a vibrant campaign, “although cases of inflammatory rhetoric online were of concern”; genuine competition, in the general absence of vote-buying and pressure on voters; and good administration of the elections. They, however, also noted that the integrity of campaign finance was undermined by a lack of regulation, accountability and transparency.<sup>2</sup>

## *Separation of powers and effective checks and balances*

The Constitution of Armenia provides for the separation of powers between the legislative, executive and judicial branches.

The balance of power has been modified by the constitutional amendments implemented following the 6 December 2015 referendum. As a result, Armenia has shifted from a semi-presidential to a parliamentary republic – the transition which was generally assessed positively by the Venice Commission.<sup>3</sup> In the new system, the executive powers of the government have been strengthened, as well as parliament’s capacity for legislative oversight.

The legislative power is vested with the National Assembly (parliament), elected through a proportional electoral system for a term of five years and composed of at least 101 MPs. In line with the new Constitution, a stable majority defined as 54% of seats is needed to form a government. The Armenian law prescribes that should a winning party or alliance obtain less than 54% of seats, it will be assigned additional seats in order to obtain the required stable majority.

<sup>2</sup> OSCE/ODIHR EOM: Republic of Armenia, Early Parliamentary Elections, 9 December 2018, Final Report, Warsaw, 7 March 2019, p. 1.

<sup>3</sup> Venice Commission: Second Opinion on the Draft Amendments to the Constitution (in particular to Chapters 8, 9, 11 to 16) of the Republic of Armenia endorsed by the Venice Commission at its 104th Plenary Session (Venice, 23-24 October 2015, Strasbourg, 28 October 2015).

Should a winning party or alliance receive more than two-thirds of the initially allocated 101 seats, other contestants that won seats are assigned additional seats to reach a collective one-third minority.

Consequently, a total of 132 seats were allocated following the December 2018 elections. The new parliament is dominated by one party – the “New Step” alliance.

The government is a supreme body of the executive power. It is headed by the PM who proposes candidates for PM Deputies and all ministers and determines the main direction of policy of the government. The PM also heads the Security Council. Political opponents describe the current system of government as a “super PM” one and call to limit the PM power, in particular to strengthen the parliamentary oversight over National Police and National Security Service which are now subordinated directly to the PM.

As executive powers of the PM and the government have been enhanced, the powers of the president have, in turn, been reduced and have become almost ceremonial. The president, who is the head of state, is elected by the parliament for one term of seven years. The current president was elected in March 2018.

Overall, while democratic checks and balances exist, they could be strengthened further. International monitoring bodies welcome the declared willingness of the new Armenian authorities to put into place a real balance of powers.<sup>4</sup>

## *Effective power to govern of elected officials*

Elected officials have effective power to govern. Civilian authorities have generally maintained effective control over military and security forces. For years, Armenia’s politics had been intertwined closely with business. The April-May 2018 political changes have aimed at changing this link, and progress has been achieved since.

<sup>4</sup> PACE: PACE monitors welcome the launch of reforms and call for concrete results, Press release, Strasbourg, 25 March 2019.





## ***Civil society, Media and Participation***

### *Scale and independence of civil society*

Armenia's civil society is diverse and active. Civil society representatives played a big role in the April-May 2018 change of government and have since then been proactive in promoting democratic reforms.

According to official data, there were over 6,000 civil society organisations (CSOs) registered in Armenia at the end of 2017, although it was estimated that only about 20% of registered CSOs were active. The legal and regulatory environment for CSOs, which used to be perceived as over-regulated, has been improving since the new law on Public Organisations was adopted in December 2016. CSOs' organisational capacities and sustainability, including institutional development, financial viability and advocacy potential, have also been enhancing. At the same time, the availability of local funding sources for CSOs is still limited, especially in the regions, and CSOs remain largely dependent on international grants. CSOs, dealing with sensitive matters in Armenian society, such as domestic violence and the rights of sexual minorities, have sometimes been the subject of negative campaigns, accusing them of following donor agendas and opposing traditional Armenian values.

### *Independence and pluralism of media operating without censorship*

The media environment in Armenia is diverse: there are more than 160 traditional media outlets and more than 200 online news portals operating. TV is the primary source of political information, especially outside the capital, while the online media and social networks have become an increasingly significant platform for political information and debate. But as the advertising market in the country is limited, only a few media are self-sustaining while most are dependent on external support. Many nation-wide private outlets are believed to be associated with political parties, including financially. Following the change of government in April-May 2018, the new authorities have committed to strengthen media freedom.

Media plurality is believed to have increased, although there are also opinions that the general "post-revolutionary" atmosphere poses challenges for independent critical journalism and is not conducive to criticism of the government.<sup>5</sup>

The law on Television and Radio Broadcasting does not require the full ownership structure of media outlets to be disclosed. Further amendments to legislation are needed to ensure greater media transparency and plurality.<sup>6</sup>

### *Multiple channels of civic and political participation*

Despite the existence of multiple formal channels, citizen's participation in the political process used to be generally low, partly due to the general distrust in the political and electoral processes. After the political changes in April-May 2018, public trust in the government has increased, creating a stronger foundation for civic and political participation.

### *Freedom to form political parties and existence of organised opposition*

Armenia has a multi-party system. Ideological pluralism and freedom of political parties to operate freely are guaranteed by the Constitution and implemented in practice. Political pluralism is believed to have expanded after the April-May 2018 change in government. 11 political parties and alliances participated in the December 2018 parliamentary elections. Three overcame the electoral threshold (5% for political parties and 7% for alliances) and entered the parliament. Opposition parties are able to campaign freely and oppose government initiatives. But the dominance of the governing party in the current parliament and the weakness of opposition make it difficult for the latter to serve as a viable political alternative.

<sup>5</sup> OSCE/ODIHR EOM: Republic of Armenia, Early Parliamentary Elections, 9 December 2018, Final Report, Warsaw, 7 March 2019, pp. 14-15.

<sup>6</sup> OSCE Representative on Freedom of the Media: Press release, 25 October 2018; Joint Press Release – EU and Armenia hold 10<sup>th</sup> Human Rights Dialogue, Brussels, 8 April 2019.



## ***Rule of Law and Access to Justice***

### ***Supremacy of the law***

Supremacy of the law is enshrined in Armenia's Constitution, and necessary legislative and institutional safeguards are in place. The right to a fair trial is also envisaged in the Constitution, although public trust in the judiciary remains low.

### ***Independence of the judiciary***

The Armenian Constitution prohibits any interference with the administration of justice that shall be exercised only by courts in compliance with the Constitution and laws. A new Judicial Code was adopted in February 2018 aimed at strengthening the independence of judges and having received a generally positive assessment from the Venice Commission. But although the law provided for an independent judiciary, generally the judiciary has not been perceived as independent and impartial, and public distrust in the system's integrity persisted.<sup>7</sup>

After the political changes in April-May 2018, the new authorities have committed to implement far-reaching justice reforms to strengthen the independence of judiciary. A new Justice Reform Strategy for 2019-2024 and its Action Plan are being drafted. International monitoring bodies generally praised the judicial reform package, seeing the large majority of proposals to be in line with European standards, but expressed concern over the plan to change the composition of the Constitutional Court and over the "open conflict" between the Court and the government. As the reform is a work in progress, public distrust in the system remains high.<sup>8</sup>

### ***Government and citizens equally subject to the law***

The Constitution guarantees the equality of all citizens before the law.

<sup>7</sup> European Commission (EC) and High Representative (HR) of the Union for Foreign Affairs and Security Policy: Report on EU-Armenia relations in the framework of the revised ENP, Brussels, 4 June 2018, pp. 7-8.

<sup>8</sup> Venice Commission: Joint Opinion on the Amendments to the Judicial Code and some other laws, Venice, 11-12 October 2019; Statement by the Venice Commission President, 29 October 2019; EC&HR: Partnership Implementation Report on Armenia, Joint Staff Working Document, Brussels, 20 May 2019, p. 7-8; PACE: Armenia – PACE monitors express concern at Prime Minister's call to block courts, Press release, 21 May 2019.

This principle, however, was not always seen as being ensured in practice, especially as there were very few cases of officials being prosecuted for corruption and other offences. Impunity was perceived as widespread.

Following the April-May 2018 change in government, the new Armenian authorities have committed to the principle of equality before the law. Steps have been taken to improve the accountability of law enforcement, and no groups or individuals can feel protected from the workings of the legal mechanism. The Armenians generally feel more equal facing the law.

### ***Effective policies and institutions to prevent corruption***

Armenia had over the previous Country Strategy period continued to reform its anti-corruption legislation and institutions. However, a genuine resolve to address widespread corruption had been lacking, and the lack of practical enforcement of anti-corruption laws, together with a monopolised economy, remained a serious concern.<sup>9</sup>

After the political changes in April-May 2018, the new authorities have made the fight against corruption as one of their main policy priorities. Strong political will has been displayed and resolute steps have been taken to eradicate corruption and strengthen the rule of law. A number of high-profile charges and arrests were implemented, and the first tangible results have been achieved. Stronger legislative and institutional foundations need to be put in place to supplement the strong political will in order to root out corruption in a sustainable way. A new Anti-corruption Strategy for 2019-2022 and its Action Plan are being drafted. The establishment of Anti Corruption Law enforcement body - Anti Corruption Committee, Commission for Prevention of Corruption, as well as the establishment of Court on Corruption Cases are envisaged by the Strategy and Action Plan.<sup>10</sup>

Transparency International has ranked Armenia 105<sup>th</sup> out of 180 countries on its 2018 Corruption Perceptions Index - a small improvement compared to the previous year.

<sup>9</sup> OECD: Anti-Corruption Reforms in Armenia, Fourth Round of Monitoring of the Istanbul Anti-Corruption Action Plan, 4 July 2018.

<sup>10</sup> EC&HR: Partnership Implementation Report on Armenia, 20 May 2019, p. 8.

## ***Civil and Political Rights***

*Freedom of speech, information, religion, conscience, movement, association, assembly and private property*

Armenia is committed to the respect for human rights and fundamental freedoms, in line with its national legislation and international commitments as member of the UN, the OSCE and the Council of Europe.

Under the previous administration, the basic civil and political rights had generally been respected, although had not been upheld consistently in practice. Respect for freedom of assembly in particular was selective, and there were cases of disproportionate use of force by the police against peaceful demonstrators, excessive use of pre-trial detention and arbitrary interpretation of legislation in order to punish opposition activists.<sup>11</sup>

Following the April-May 2018 change in government, relevant international organisations have praised positive changes with regards to the respect and protection of human rights and fundamental freedoms in the country. Armenia has notably improved its international scores. The strengthened respect for freedoms of association, assembly, expression and movement was demonstrated during the last parliamentary campaign in December 2018. The implementation of the National Human Rights Action Plan for 2017-2019 is ongoing, although the Plan lacks clear mechanisms for monitoring, evaluation and coordination.<sup>12</sup> A new Human Rights Strategy and a new Action Plan for 2020-2022 are expected to be adopted in 2019.

The CoE's Commissioner for Human Rights has also welcomed new impetus given by the new government to finally establish truth and prosecute those responsible for the deaths of 10 people that occurred during the violent events of March 2008 in the aftermath of the presidential election. At the same time, the Commissioner stressed the importance of ensuring that this process is conducted in strict adherence to the principles of the rule of law, judicial independence, transparency and guarantees of fair trial.<sup>13</sup>

<sup>11</sup> EC&HR: *Report on EU-Armenia relations in the framework of revised ENP*, 4 June 2018, p. 4.

<sup>12</sup> EC&HR: *Partnership Implementation Report on Armenia*, 20 May 2019, p. 3.

<sup>13</sup> *The Commissioner for Human Rights (CommHR) of the CoE: Report following her visit to Armenia from 16 to 20 September 2018, Strasbourg, 29 January 2019, p. 2.*

## ***Political inclusiveness for women, ethnic and other minorities***

The new Armenian Constitution stipulates that discrimination on all grounds is prohibited. Legislative and other changes in recent years, including the adoption of the Law “On the prevention of domestic violence, the protection of victims of domestic violence and the restoration of family cohesion” (December 2017), setting up by the PM of the Council for Prevention of Domestic Violence (July 2018), and preparation of a draft law on “Ensuring Equality” and a draft National Strategy on Gender Policy Implementation for 2019-2023 and Action Plan, have further reinforced the non-discrimination agenda.

Nevertheless, gender equality, domestic violence, and the rights of LGBTI persons, that are sensitive to Armenian society, remain a serious issue.

Positive trends were observed in terms of promoting political participation of women: the proportion of women MPs has increased in the last decade (following the introduction of a quota of female candidates on party lists) and reached 24% in the current parliament (the European average is 25.6%); the first woman mayor was elected in August 2018; and women comprise 31% of members of the Yerevan city council as a result of the September 2018 elections. Women, however, remain underrepresented in politics and in public decision-making. International observers found that some women candidates were “a target of disparaging rhetoric because of their gender” during the last parliamentary elections.<sup>14</sup> The scale of engagement of women in the executive is even more limited: there is only one woman among 15 members of the current government and none among 10 governors.

Despite the welcome developments and efforts in recent years, domestic violence remains “a serious, widespread, and to some extent still underestimated phenomenon” in Armenia. Consequently, relevant international bodies recommend the country to ratify the CoE Convention on preventing and combating violence against women and domestic violence (Istanbul Convention), while ensuring that the new national

<sup>14</sup> OSCE/ODIHR EOM: *Republic of Armenia, Early Parliamentary Elections*, 9 December 2018, *Final Report*, Warsaw, 7 March 2019, p. 2.



legislation is effectively applied in practice.<sup>15</sup>

Several instances of discrimination against LGBTI (including hate speech and threats of violence) have been of international concern.<sup>16</sup> The CoE's Commissioner for Human Rights has recommended that the Armenian authorities adopt a comprehensive anti-discrimination law which should include a clear reference to sexual orientation and gender identity, and has called on the authorities to take prompt and resolute action against all instances of violence, hate speech and hate crime targeting LGBTI persons in the country.<sup>17</sup>

Contemporary Armenian society is largely ethnically homogeneous. By law, up to four seats in the parliament are reserved for the four largest national minorities.

#### *Freedom from harassment, intimidation and torture*

The Armenian Constitution explicitly prohibits torture, inhuman or degrading treatment or punishment.

The Civil Code, amended in December 2015 and December 2016, provided further safeguards, including entitling to material compensation those individuals whose right to be free from torture, inhuman or degrading treatment or punishment had been violated. The new Law on the Human Rights Defender, adopted in 2017, has strengthened the role of the defender as the National Prevention mechanism against torture.

Despite these legislative improvements, concerns remained with regard to the practice of ill-treatment and torture, particularly in police custody.<sup>18</sup> Further development of specific legislative safeguards (e.g. through amendments to the Criminal Procedure Code) is underway.

The last EU Partnership Implementation Report on Armenia called to thoroughly investigate a death of an inmate in January 2019, which occurred following a hunger strike.<sup>19</sup> Close cooperation between the new Armenian authorities and the European Committee for the Prevention of Torture and Inhuman and Degrading Treatment (CPT) is also recommended, as well as capacity building of the Armenian National Prevention Mechanism.<sup>20</sup>

<sup>15</sup> CommHR of the CoE: Report following her visit to Armenia from 16 to 20 September 2018, 29 January 2019, pp. 1, 3-13; See also: PACE monitors welcome the launch of reforms and call for concrete results, Press release, 25 March 2019; EC&HR: Partnership Implementation Report on Armenia, 20 May 2019, p.5.

<sup>16</sup> EC&HR: Partnership Implementation Report on Armenia, 20 May 2019, p. 4-5; See also: Statement on Behalf of the Delegation of the European Union and EU Member States Embassies Resident in Armenia, 9 April 2019. A similar statement was also released by the UN Office in Yerevan.

<sup>17</sup> CommHR of the CoE: Report following her visit to Armenia from 16 to 20 September 2018, 29 January 2019, pp. 2, 24-27; See also: PACE monitors welcome the launch of reforms and call for concrete results, Press release, 25 March 2019.

<sup>18</sup> European Committee for the Prevention of Torture (CPT): Report to the Armenian Government on the visit to Armenia from 5 to 15 October 2015, Strasbourg, 22 November 2016.

<sup>19</sup> EC&HR: Partnership Implementation Report on Armenia, 20 May 2019, p.4.

<sup>20</sup> European External Action Service (EEAS): Joint Press Release -- EU and Armenia hold 10<sup>th</sup> Human Rights Dialogue, Brussels, 8 April 2019.