



# Armenia Country Strategy 2012–2020

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## Armenia

Connecting the Black Sea region with the Danube area is an essential geopolitical concern of Austrian foreign policy which has also reinforced our interest in the Southern Caucasus, a region with which Austria has entertained longstanding bilateral ties. This region at the juncture between Europe and Asia, and embedded between the regional powers of Russia, Iran and Turkey, in the two decades after the end of the Soviet Union has often been afflicted by economic crisis, armed conflicts and political disturbances.

Austria, as seat of the OSCE, has been involved in conflict regulation processes in the Southern Caucasus and has participated in several security and peace keeping operations there. The Southern Caucasus is of increasing economic and political importance - in particular for security and energy supply considerations - for Europe which is reflected, among other things, in the Neighbourhood Policy of the European Union. The countries of the Southern Caucasus, in turn, are striving gradually to achieve EU standards and structures and, therefore, are also interested in strengthening bilateral relations with EU member states, including Austria.

The Southern Caucasus is part of the Black Sea Region which, together with the Danube region/Western Balkans, forms Austrian Development Cooperation (ADC) key region of South-eastern/Eastern Europe. ADC supports this region in the transition towards a democratic system of governance and a modern market economy. It understands itself as a comprehensive platform for Austrian interests, in particular in the fields of economics, science and culture. The Ministry for European and International Affairs aims at mutual involvement in planning procedures of line ministries, coherent actions on all levels and active information and communication policies.

Our engagement in the Southern Caucasus began in the wake of the 1988 earthquake in Armenia with a search and rescue operation conducted by the Austrian armed forces and the delivery of humanitarian assistance to victims,, and developed in the following years into a regional programme focusing on governance and human security, strengthening of civil society and conflict prevention. This regional approach is now being replaced by bilateral country strategies for Armenia and Georgia.

Elaboration of the strategies happened in close cooperation with donor partners. Monitoring of ADC engagement is done by the office of Austrian Development Cooperation in Tbilisi which started operation in November 2011 und will be expanded to a regional cooperation office in 2013. The setting up of this office will further strengthen the Austrian presence in the Southern Caucasus - the Austrian Embassy for Armenia in Vienna, honorary consulates, police attaché in Tbilisi, Austria libraries, business companies, etc.



## Strategic Goals of Cooperation

The collapse of the Soviet Union led to profound economic and societal changes in Armenia which to this day affect the stability of the country: of Armenian society and the Armenian economy. The loss of export markets, the lack of international competitiveness, the conflict with Azerbaijan over Nagorny Karabakh, internally displaced persons and domestic as well as external crisis.

A main goal of cooperation between Austria and Armenia is the strengthening of bilateral ties, building on development cooperation activities and political cooperation in the past. Conflict prevention through cross-border projects is aimed at strengthening of peace and stability in the region. A central concern is the creation of development potential and better framework conditions for transformation processes, in order to promote own efforts and responsibility.

Despite remarkable economic progress in recent years, more than a quarter of the Armenian population is still living in absolute poverty (see annex facts and figures, socioeconomic indicators). A primary goal is therefore poverty reduction through the creation of sustainable and broad employment and income opportunities, taking into consideration the specific needs and necessities of our partner country.

We thereby support the transition to rule based democracy and social market economy as well as efforts aimed at further approximation to European values and structures, e.g. through adoption of EU norms and standards in the framework of the Eastern Partnership or the European Partnership Policy (ENP), even if the country has not been given an accession perspective yet.

The Country Strategy is based on the Austrian Development Cooperation Act and the ADC Three Years Programme, as well as on international development obligations and goals, such as the principles on Aid Effectiveness of the Organisation for Economic Cooperation and Development (OECD), the EU Agenda for Change, the United Nations Millennium Development Goals and basic strategic documents of the Armenian government. This Strategy intends to make, through specific projects in selected priority areas, an effective contribution to the implementation of these obligations.

## Priorities of the Country Strategy

### **Sector Priority Agriculture**

Priority sector of the new Country Strategy for Armenia is agriculture. The choice of this sector was primarily guided by the objectives of poverty reduction and socially and environmentally sustainable development.

With the end of the Soviet Union, Armenian agriculture gradually became less significant, losing important export markets and government support, as the former kolkhozes and sovkhozes were transformed, in the course of several privatizations, into small agricultural entities.

The resulting structural problems – dominance of small and subsistence farmers, low productivity, lack of access to modern technologies, information and modern distribution methods, bank credits and other financial services, inadequate public services and bad infrastructure – have not been overcome to this day. Soil erosion primarily caused by ill-suited agricultural practice and overgrazing constitutes a severe problem with relation to the proper use of land. A significant part of the land is threatened by desertification. Distrust in agricultural cooperatives rooted in memories of the collectivist past hinder efforts to raise output productivity.

Besides the urban unemployed, isolated internally displaced persons and single mothers' households, it is rural populations which are most severely affected by poverty. Rural poverty is also a main cause of rural-urban migration and emigration. Remittances of seasonal and permanent emigrants represent a sizeable share of national income.

Agriculture in Armenia still accounts for more than 17% of the economy and about 46% of total employment. Against this background, the Armenian side proposed this sector as a focus of bilateral cooperation and of integrated rural development in general. Austria has similar geologic and topographic conditions as Armenia, and can therefore offer relevant experience and know-how.

Sustainable development requires a competitive economy. Social security, stable incomes and jobs, in a rapidly changing globalized world, can only be provided by adequate political and economic framework conditions. Reforms necessary for competitiveness on the global markets require modern technologies and know how. Here lies a potential also for the participation of Austrian businesses, in particular in the area of support for small and medium enterprises. Improved access to local and regional markets, improved business organisation, the provision of specific vocational and business administration know how, modern marketing, product innovation, etc. are also important aspects of ADC activities in the priority sector agriculture.

The most important goals in this sector are food security and the strengthening of competitiveness, productivity and sustainability of Armenian agriculture, in particular in disadvantaged mountain areas and border regions. Through adequate ecologically sustainable agricultural methods, the establishment of local production chains, product diversification and the better use of arable land via agricultural associations, food quality, food safety and export opportunities are to be increased. These measures will also help to support implementation of the government's strategies for sustainable agricultural and rural development, and for food safety, respectively.



The Strategy also envisages measures for the promotion of livestock production, e.g. through improved animal health and sustainable pasture farming. Complementary measures in the areas of rural tourism and renewable energy can also contribute to increase added value. Better access to land, in particular for women and marginalized and socially disadvantaged groups is another important aspect of the Strategy. ADC interventions are specifically targeted at assisting efforts of the Armenian government in the fields of land reform, strengthening of property and contract law, and improvement of the general business and investment climate. In this respect ADC supports the organization of a first agrarian census and the setting up of appropriate official statistics.

An important ADC partner in the agricultural sector, besides the Austrian Ministry of Agriculture and other pertinent and interested institutions, is the Austrian business community.

**Project example:**

**Establishment of Cooperatives in the province of Tavush**

This project supports the setup and development of cooperatives in the province of Tavush in north-eastern Armenia. The aim is to set up, in various local communities, at least 6 cooperatives, provide marketing support and build a factory for agricultural products with direct distribution networks for the local industry, as well as two cold-storage depots. This project, with participation of Oxfam, the United Nations Development Programme (UNDP) and the Center for Agribusiness and Rural Development Foundation (CARD), a trusted local partner, will improve access to affordable credit, support the elaboration of a law for agricultural associations, reduce production and sale risks, and increase agricultural value added.

**Cross-cutting issue Governance**

Cross-cutting issue of the new Strategy is Governance in the framework of which the areas of assistance of the former regional programme mentioned above – conflict prevention, security and strengthening of civil society – will continue to be taken care of. ADC will not engage in militarized conflict zones, though. Comprehensive confidence-building measures to avoid social and political tensions, with special consideration for the interests of marginalized ethnic and socially disadvantaged groups, are an essential aspect of conflict prevention and an important requirement for sustainable development, democratization, political stabilization and human security.

Political and social stability and security are at the same time essential conditions for the improvement of the investment climate and the general economic framework, and, in the end, for strengthening trust in the future of the country. This is the only way to mobilize domestic resources, attract foreign direct investment and prevent capital outflow and brain drain.

Armenia made remarkable progress in recent years with respect to democracy, human and minority rights, fight against corruption, etc. ADC interventions, in particular in the areas of decentralization and regional development, shall further enhance the positive development with regard to transparency and rule of law, civil society participation, strengthening of civil society and of the private sector.

Programme and project relevant decisions shall be guided by the principle of subsidiarity and accordingly be taken as close as possible to the citizen. Inclusion of the local population in planning, implementation and monitoring of projects and programmes is given particular attention in this respect. Active participation of women, ethnic minorities and marginalized groups in political and socio-economic processes will receive targeted support.

ADC activities in the area of governance are conceived as supportive supplementary measures to projects and programmes in the priority sector agriculture. They shall at the same time assist approximation to corresponding EU standards, values and structures.

**Project example:**

**CARE Project for inclusive development and governance in the Southern Caucasus (JOIN)**

The project JOIN (Local Actors Join for Inclusive Economic Development and Governance in South Caucasus) focuses on poverty reduction in border areas between Armenia and Georgia, supporting cooperation between local authorities and interest groups in 13 communities. In the process the socio-economic situation of impoverished farmers, in particular of women, will be improved through capacity building and integration into the agrarian economy and favorable conditions will be created for the generation of economic value chains.

## **Regional Priorities of the Country Strategy**

ADC activities in the priority areas of the new Country Strategy focus on the poor border regions (“marzes”) Shirak, Lori and Tavush in the northern part of the country, and are aimed at supporting decentralization efforts of the government in the framework of the implementation of the Law on Local Self-Governance (2002)<sup>1</sup>. ADC has been financing projects in support of local self-government in Northern Armenia since 2009. This engagement will be continued and intensified via technical counselling and capacity development, partly in the form of cross-border projects.

Regional and local administrations in Northern Armenia need, in particular, know-how and training in the areas of organizational development, process planning, data collection and analysis, as well as financial management. ADC projects will promote cooperation between local administrations, civil society and the private sector, and make politics on the local level more inclusive, participatory, transparent and responsible, for the sake of better quality of public services.

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<sup>1</sup> Armenia consists of 10 Regions (“marzes”; without a budget of its own and accordingly without real administrative autonomy), the capital Yerevan, and 930 municipalities (in self-administration). More than 90% of the municipalities – i.e. about 30% of total population – are rural and have less than 5,000 inhabitants.



## Implementation and Coordination

Austrian Development Cooperation has to take into consideration various time frames, focusing on longer term engagement. Planning, implementation and coordination are aimed at better division of labour in the framework of donor coordination, in the spirit of the Paris, Accra and Busan declarations on Aid Effectiveness. Ownership of the development process and the capacity to self-help through institutions and organizations of the partner country play an important role in the effective use of ADC funds. Ownership and Good Governance are to be strengthened by a comprehensive dialogue with local partners and the build-up and the development of the necessary capacities on national, regional and local levels. Improved division of labour within the donor community through harmonization of bilateral programmes and alignment with national strategies of partner countries are to support this process.

Armenia, like all countries of the Southern Caucasus, has been involved in the Neighbourhood Policy of the European Union, and is also part of the Eastern Partnership. Armenia receives support primarily from the European Neighbourhood and Policy Instrument (ENPI) which was set up to create an area of prosperity and of good-neighbourly relations. In addition, Armenia is getting funds from cross-border cooperation (e.g. Black Sea programme) as well as from thematic and nuclear programmes.

ADC activities are accordingly closely coordinated with the European Commission and EU member states, and also with other bilateral and multilateral donors. The new ADC Strategy thus takes into consideration relevant documents of the European Commission for Armenia, such as the Partnership and Cooperation Agreement of 1996, the Action Plan to this Agreement and the National Indicative Programme.

Donor coordination on the ground lies formally with the respective coordination unit in the Armenian ministry of the Economy. In practice, coordination is being organized primarily by large donors, e.g. the World Bank, the United States Agency for International Development (USAID), UNDP and the EU. Sector-specific questions are being discussed in special working groups or in ad hoc bilateral talks with project partners. A platform for regular dialogue with the donor community and the Armenian civil society does not yet exist.

## Coherence and complementary instruments of Austrian development cooperation

A lasting impact and further strengthening of bilateral cooperation can be reached only by coherent action. Austrian partner institutions and organizations were included in the strategy development process from the very beginning. Exploitation of synergies through identification, coordination and implementation of joint projects with other ministries, non-governmental organisations NGOs, the Austrian Development Bank and representatives of Austrian business, science and culture deserves further efforts. These stakeholders can make an important complementary contribution, through the support of ADC projects in the form of economic partnerships or vocational education and training measures.



The Austrian Federal Ministry of Finance and the National Bank (Oesterreichische Nationalbank/OeNB) contribute, via the respective voting groups in international financial institutions, to coherence with the Austrian development goals. The Federal Ministry of Defence and Sport uses its expert contacts with regard to security sector reform. Finally, ADC programmes and projects are being supported by complementary activities of other departments in the Ministry of European and International Affairs, e.g. via financing instruments in the framework of the European Neighbourhood Policy.

An important function of the office of the Austrian Development Agency in Tbilisi is the build-up and intensification of local contacts with Armenian governmental institutions, the Armenian civil society, international organisations and financial institutions which were involved already in the elaboration of the Country Strategy and which will participate also in its implementation.

Besides projects and programmes in the framework of this bilateral Country Strategy, the Austrian Development Agency (ADA), the operative arm of ADC, supports also NGO co-financing projects, business partnerships and cross-border regional projects in Armenia.

In addition to ADC, the following Austrian institutions make substantial contributions to Austrian Official Development Assistance (ODA).

The Oesterreichische Entwicklungsbank (OeEB), founded in 2008, provides financing at near-market conditions and strengthens the developmental effects with collateral measures such as its Advisory Programmes. The bank acquires a financial interest in companies, e.g. in the energy sector.

Since 2010, Armenia has been eligible for soft loan financing by the Austrian Ministry of Finance, with a concessionality level (grant element) of 35%. Projects supported through this instrument, have to make a proven contribution to socially and ecologically sustainable development of the country.

The inclusion of the Austrian economy in ADC projects and programmes is useful and important. In the priority sector agriculture, in particular, the rapid adjustment to changes on domestic and foreign markets is a precondition for the sustainability of ADC interventions. Successful Austrian export companies can contribute valuable experience and know-how in this respect. Such cooperation is not only to the benefit of the Armenian population but also an opportunity for Austrian enterprises (win-win-scenario) to develop new markets together with partners and target groups.

This Strategy is subject to regular revision and, if necessary, adaptation to changing circumstances and developments.



## Facts and Figures

Name:	Republic of Armenia
Area:	29,800 km <sup>2</sup> (World Ranking 139)
Population:	3 077 m (World Ranking 133)
Capital:	Yerevan, 1m inhabitants
Regions:	10 regions und the capital Yerevan
Ethnicities:	97.9 % Armenian, 1.3% Kurd, 0.45% Russian; others (Assyrian, Georgian, Ukrainian und Greek)
Languages:	Armenian (official language), Russian, minority languages
Religions:	Armenian Apostolic Church („Gregorian“); Russian Orthodox Church, Protestants and other minorities
Neighbouring states:	Turkey, Georgia, Azerbaijan, Iran
GDP/capita:	USD 3,305 (WR 120)
Poverty:	26.5%
HDI:	WR 86
Democracy Index:	WR 111
TI-Index:	WR 106
Doing Business Index:	WR 32
Gini-coefficient:	WR 61
GDP growth:	4.7%
Inflation:	7.7%

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## Armenia Results Matrix

Strategic Goals	Results	Indicators	Link to SDG targets
<b>Sector Priority Agriculture</b>			
Improved livelihoods of rural population through inclusive and sustainable agricultural growth	<p>Improved income (opportunities) of farmers/agribusinesses/cooperatives</p> <p>Increased productivity and local value added</p> <p>Improved access to inputs, services, knowledge and markets</p> <p>Climate smart sustainable land/pasture management (methods) introduced</p> <p>Improved animal health management</p> <p>Enhanced national capacities to produce, analyse and disseminate relevant and reliable information on issues related to the agricultural sector</p>	<p>Number of farmers<sup>1</sup>/agribusinesses/cooperatives with increased income from agricultural produce</p> <p>% of increase in productivity in selected value chains (e.g. livestock, horticulture, apiculture etc.)</p> <p>Number of farmers/agribusinesses/cooperatives with enhanced access in any of the mentioned areas</p> <p>Areas with sustainable land management methods (ha)</p> <p>Number of veterinary services/service points established / functioning</p> <p>Full-scale national agricultural census implemented;</p> <p>Number of representatives of central and regional units reached through capacity development (e.g. National Statistics Service);</p> <p>A Holding and Animal Identification and Registration system is designed</p>	<p>2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment.</p> <p>2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.</p> <p>15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world.</p>

<sup>1</sup> For indicators including number of persons, disaggregation of data will be pursued to the extent available from ADC's partners.

Cross-cutting issue Governance			
Decentralization and enhanced governance for more efficient administration, better service delivery and strengthened civil participation	Enabling environment for delivering better services to citizens promoted (e.g. framework conditions developed, capacities strengthened, inclusive development promoted)	<p>Number of new and/or improved legal acts, policies or programmes, procedural frameworks to promote efficient administration and good governance principles</p> <p>Number of new and/or improved policies/strategies/programmes promoting women empowerment or gender equality</p> <p>Number of municipalities that develop inclusive local strategies / municipal plans (e.g. empowerment of women / engagement of poor/disadvantaged groups)</p> <p>Number of persons (public officials, citizens) who benefitted from capacity development in areas related to inclusive governance and development</p>	<p>5.1 End all forms of discrimination against all women and girls everywhere</p> <p>10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard</p> <p>13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning</p> <p>16.6 Develop effective, accountable and transparent institutions at all levels</p>