

Country Assistance Strategy

ARMENIA 2009-2013

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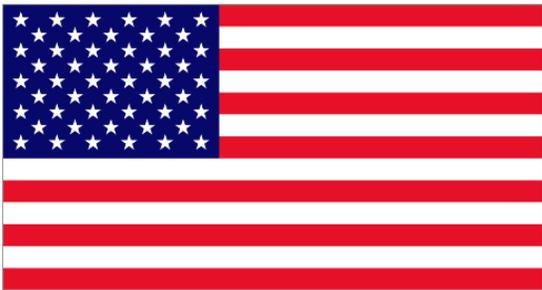


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COUNTRY ASSISTANCE STRATEGY Armenia 2009-2013

I. Introduction

A. Country Context

Armenia is a small, resource-poor, land-locked but strategically located country at the crossroads of Europe and Asia. Because of its unresolved conflict with Azerbaijan, Armenia has closed borders to its east (with Azerbaijan) and west (with Turkey), a situation that taxes the economy and reduces Armenia's attractiveness for foreign direct investment. Nevertheless, events such as Turkish President Gul's historic 2008 visit to Armenia provide some room for hope that a fundamental, positive regional political realignment can occur. Endemic unchecked corruption and enduring Soviet mindsets exacerbate the problem. Armenia's quest for energy security has led it to seek closer economic relations with Iran, making it politically difficult for Armenia to show strong support for international efforts to prevent Iran from further acquiring advanced nuclear technology. Russian influence in Armenia is substantial, particularly in its dominance in major infrastructure and utilities. Since independence, the strong, politically engaged Armenian-American community has continued to support its vision for Armenia's development, mainly through humanitarian assistance activities.

Since 2000, Armenia has experienced nominal double-digit economic growth and has further developed some important aspects of a market. Armenia's economic advances have laid the foundation for the next stage of its development. Thanks in no small part to United States Government (USG) assistance, poverty, though still prevalent, has declined 30% in eight years since 1999. The Armenian government (GOAM) has improved its legal and policy framework. The GOAM has made substantial progress toward rehabilitating the country's infrastructure and utilities. Along with this, an emerging middle class has increased the potential for civil society to play a determining role toward positive transformation. Despite this, Armenia's rapid growth and continuing reforms have been uneven, and have not led to substantial increases in national competitiveness or sustainable and broad based economic development. In recent years, for example, the major driver of economic growth has been the unsustainable construction sector, accounting for 32.9% of GDP growth in 2007 and 57.4% in 2006. Overseas remittances have generally been equivalent to approximately 20% of Armenia's GDP. Armenia's strong dependence on external sources of energy multiplies the negative effects of closed borders and highlights Armenia's vulnerability to energy flow disruptions from the north.

Despite this, Armenia's rapid growth and continuing reforms have been uneven, and have not led to substantial increases in national competitiveness or sustainable and broad based economic development. Furthermore, the impact of the global financial crisis threatens to reverse Armenia's economic gains, in part due to the heavy reliance on construction and remittances as drivers of economic growth. For example, the construction sector accounted for 32.9% of GDP growth in 2007 and 57.4% in 2006, while overseas remittances have generally been equivalent to approximately 20% of Armenia's GDP. Both of these areas will be severely impacted by the global financial crisis as demand for construction and remittances from abroad, namely Russia, decreases. Additionally, Armenia's strong dependence on external sources of energy multiplies

the negative effects of closed borders and highlights Armenia's vulnerability to energy flow disruptions from the north.

While Armenia's economic growth has been impressive, similar progress in democratic processes and good governance has been lacking. The GOAM followed the heavily-flawed February 2008 presidential election with a harsh crackdown on political opposition. GOAM measures to stifle opposition and independent media also have called into question its commitment to democratic principles. Political control remains concentrated in the hands of the ruling elite and its closely associated oligarchs. The state—or businesses with ties to it—controls the majority of the mass media, which, consequently, is at times unabashedly partisan and one-sided. The few enduring opposition print and electronic media outlets have faced harassment, intimidation and retribution by administrative organs such as the tax authorities. Human rights violations persist, including the detention of political prisoners. The endemic and corrosive effects of corruption pervade every aspect of society and impede political, economic and social reforms.

Improving Armenia's human capital is essential to putting the country on a path to sustainable development. Though in many aspects the GOAM has improved social services, including social benefits and healthcare in recent years, these elements remain underfunded and of insufficient quality. Armenia's legacy of centrally managed, poor-quality and insufficiently funded health, education and social services severely constrain the country's ability to provide adequate services to its citizens. Persistently inadequate health financing over the past decade has resulted in the poor maintenance and deterioration of health facilities, insufficient health care provider salaries, poor pre-service and in-service medical education and a lack of community outreach services. Likewise, many social benefits and services for the vulnerable, such as elderly pensions and family welfare benefits, remain woefully inadequate. The need for state subsidies continues to increase, as nearly two-thirds of those unemployed remain so for one year or longer.

Armenia was approved for Millennium Challenge Account (MCA) funding in 2004 and the GOAM signed a \$236 million Compact with the Millennium Challenge Corporation in March 2006. While the MCA-Armenia Program implementation has progressed well, Armenia's MCC indicators have declined. In 2008, the year it graduated to a Lower Middle Income Country, Armenia failed nine of the 17 MCC indicators, including five of the six MCC Ruling Justly indicators. The GOAM continues to express its strong desire to maintain its MCA eligibility, which will ultimately be determined by the USG based on developments related to democracy and governance.

Armenia has shown mixed results in its transition to a market-oriented democracy. While first stage economic reforms have been very successful and the GOAM has made significant progress in its economic performance, the country is still lagging behind Romania-Bulgaria 2002 standard in its second stage reforms, specifically in financial sector development, infrastructure and small and medium enterprise market share and employment. With regard to Armenia's democratic progress, while some Freedom House and Transparency International-based reform indices, including civil society and corruption, have remained constant, other indicators in such key areas as media, fair elections and governance have shown steady backsliding since the early 1990s. Regarding its Human Capital Index, Armenia is behind the graduation standard, especially in

terms of low public health and education spending, high poverty rates and low quality of services. This strategy considers these gaps in developing the USG assistance portfolio over the five-year period.

The analysis of the country situation, recent trends and forecasts, therefore, suggests that the envisioned phase out dates for Armenia—EG in 2011 and GJD and IIP in 2013—appear to be optimistic. The IMF and others have forecast that Armenia's robust growth rate, dominated by unsustainable construction and remittances since 2000, will slow over the coming years to more normal rates; increased fuel prices, the effects of the global financial crisis, and the aftermath of the 2008 conflict in Georgia may further exacerbate this prognosis. With parliamentary and presidential elections scheduled for 2012 and 2013 respectively, the 2013 phase-out target date for GJD requires reevaluation. At the very least, the USG will need an opportunity to assess the effectiveness of this strategy, particularly regarding programmatic elements related to elections. Because of the fragile nature of Armenia's robust economic growth, the proposed EG phase out date also deserves reconsideration. Likewise, a prudent examination of the IIP the situation will be necessary within the strategy's five-year period.

B. Host Country Priorities and Political Commitment to Reform

In 2008, the GOAM adopted a five-year 2008-2012 Policy Program that takes into account its National Security Strategy and Poverty Reduction Strategy Papers, while incorporating elements from the platforms of the political parties that make up the ruling coalition. The GOAM's key priorities under the Policy Program include maintenance of macroeconomic stability and high rates of economic growth, development of human capital and social integration and consolidation. They also encompass the establishment of effective public, local self-governing and private sector management systems through the introduction of the principles of corporate management and harmonized regional development. While the GOAM will probably not make rapid progress in all spheres of its Policy Program, political will is strongest in areas in which the GOAM has already achieved progress. The USG, therefore, will capitalize on these opportunities while it and the GOAM closely coordinate these areas, over which the USG can leverage the greatest changes. The USG will simultaneously work directly with non-governmental institutions, civil society and socially-concerned groups to bolster those areas in need of reform that the GOAM deems less self-advantageous. Because of its positive and constructive relationship with the GOAM, the USG deems work in this more circuitous manner possible even in the absence of strong political will.

II. Overall Strategic Approach and Priorities

A. U.S. foreign policy goals and how assistance supports them

U.S. policy seeks to transform Armenia into a stable partner, at peace with its neighbors, that respects principles of democracy and where all members of society share the benefits of sustained economic growth. Ending Armenia's isolation from its neighbors will pay large dividends in terms of Armenia's economic growth, democratic development and overall political stability.

U.S. programs have had important successes, especially in growing Armenia's economy, but reforms aimed at promoting good governance and developing civil society have faced obstacles.

Over the next five years, with a robust assistance budget, a strong interagency U.S. presence and powerful incentives for development, the USG seeks to press a transformational diplomacy agenda on a broad range of issues. This goal entails the completion of transformational work on Eurasia's frontiers of freedom to include democratic reforms, which will secure a place in the Euro-Atlantic community for the countries of the South Caucasus, and resolving the lingering post-Soviet separatist conflicts peacefully.

Through continued U.S. assistance, the USG seeks to help resolve Armenia's regional conflicts by encouraging business growth, civil society interaction and other people-to-people ties. The USG will assist Armenia to maintain security at and within its borders by improving Armenia's law enforcement institutions to combat terrorism and smuggling, while encouraging a culture of rule of law. USG programs will consider the corruption issue, and will contribute to eradicating its insidious influence by advancing GOAM transparency and accountability through the strengthening of civil society and capabilities for good governance. USG assistance programs will work with institutions and private partners to address imbalances in the distribution of the benefits of economic growth and to encourage development in more sustainable sectors. The USG will also focus on improving and protecting Armenia's most important asset, its people, by helping to build a stable society responsive to the needs of all segments of the population through strengthened health, social and education systems.

B. Strategic vision for USG foreign assistance in Armenia

The seriously flawed 2008 presidential elections compounded by a harsh government crackdown on political opposition, the narrow economic base that has fueled recent growth and continued inadequate health and social protection financing have indicated a need to adjust the approach of USG assistance. The USG expressed its concern to the GOAM that its MCC Compact is in jeopardy if Armenia does not take concrete steps toward a democratic path. The seeming inability and unwillingness of the GOAM to foster dialogue, to restore freedom of speech and assembly and to take timely, substantive and dramatic steps to initiate democratic reforms have led the U.S. to conclude that democracy programming should de-emphasize direct technical assistance to recalcitrant GOAM institutions and opportunistically focus greater attention on other societal elements capable of bringing about change. Indeed, if the political climate were to worsen or improve only marginally and were the 2006 MCC Compact cancelled, the USG should consider further cuts in assistance. To that end, the USG is also carefully monitoring the reactions of the Parliamentary Assembly of the Council of Europe.

Armenia must diversify its economy and improve its competitiveness to sustain economic growth. Weaknesses include the business environment, infrastructure, access to finance, and private sector capacity. Given the vast potential scope of this area, declining assistance resources and the global financial crisis, the USG must be selective in the areas it chooses to intervene. For example, to address the impact of global financial crisis and continue support for competitiveness, the USG plans to launch a new trade program to enhance the private sector's ability to compete in export markets through better market research, increased awareness of food and product standards, access to credit by capitalizing on resources available from other donors, and bolstering its ability to make the case to government agencies to implement needed regulatory reforms. Another example, despite progress achieved in the energy sector in terms of the establishment of regulated market for gas and electricity, the energy sector remains

vulnerable to increases in the price of natural gas imports, the need to close down Armenia's aging and dangerous nuclear power plant, and increasing dependence on Russia for energy supplies. The USG proposes a new activity to promote energy security through assistance to the GOAM in two key elements: i) securing diversified sources, including nuclear and renewable, and ii) securing investment to ensure efficient and economically sustainable usage in national and regional contexts.

USG activities in human capital, including the health, social and education sectors over the five-year period will continue to focus on improved primary health care and social services for all Armenians, including the most vulnerable populations. At the same time, activities under this objective will serve as a catalyst for change by promoting the adoption of international best practice, policy reform and system strengthening for enhanced efficiency. Programs will encourage both the private and public sectors, giving private entities and local nongovernmental organizations a more significant and prominent role in service delivery, based on a long-term vision for the structure of the health care delivery system and its financing to ensure continued access for vulnerable groups. To this end, the USG will transform 15 years of humanitarian assistance into sustainable development by leveraging the expertise and resources of those assistance implementers that have been essential to directly assisting the most vulnerable of Armenia's citizens for so long.

Assuming Armenia retains its MCA funding, sustainable assistance in agriculture will optimize and complement the Millennium Challenge Compact's investments in irrigation and rural roads, primarily by helping farmers keep their animals healthy and ensuring their products meet food safety standards. The USG will continue to assist the GOAM's efforts to improve its primary health care system through advocacy, policy development and health system strengthening and to encourage the GOAM to increase funding for public health from the current trajectory of 1.3% of GDP to 2.2% of GDP by 2012 to the 3 - 4% the World Bank recommends for low-middle income countries.

Cutting across all these areas of assistance is the pervasive negative influence of corruption on Armenia's political, economic and social development. While it will continue to tackle corruption through each of its individual projects, the USG will also bolster its specifically-targeted anti-corruption program that works to give Armenians the necessary tools to alert the GOAM authorities to particular instances of corruption. The USG will also actively continue to support sincere and substantive GOAM efforts to combat corruption.

To ensure that various audiences understand the strategic vision of U.S. assistance to Armenia, how it relates to Armenia's priorities and how it is being implemented over the five-year period, the USG will make outreach an important priority. In particular, the USG will engage the Armenian-American diaspora, whose influence in the U.S. Congress is responsible for the relatively high per capita levels of assistance that U.S. taxpayers have historically provided Armenia, through reviving a past tradition of Diaspora Round tables in Armenian-American communities with the participation of the Chief of Mission and the USAID Director. The USG will also design an outreach program to raise awareness of its assistance activities in Armenia to the Armenian people and to solicit their feedback.

Although the GOAM's Policy Program includes most components of this strategy, its emphases often differ in terms of actual program development and implementation. While sustainable economic development and country competitiveness remain top priorities for both the GOAM and the USG, differences in approach, especially regarding elections, human rights and freedom of information, have prevented productive cooperation and tangible results in the GOAM's enforcement of democratic principles. As a result, the USG will employ new means to advance democracy in Armenia through those elements within the GOAM that are receptive to such messages as well as empowering entities other than the GOAM, including local governments, civil society organizations, NGOs, think tanks, advocacy groups and watchdog organizations that have an ability to bring about a cultural shift in thinking about and practicing democracy.

C. U.S. assistance priority goals

As the 2008 Georgian conflict illustrated, Armenia is largely alone and vulnerable in the South Caucasus. As a result, Armenia must first develop as a constructive and peaceful regional neighbor through the resolution or at least lessening of regional conflicts to ensure its stability. Armenia's development as a functioning democracy will enhance that stability with clean elections, free media and a free society based on the rule of law. Only a viable law enforcement apparatus that works in conjunction with a fair, functioning and reliable justice system can secure that rule of law. In this environment, making Armenia's private sector more competitive will ensure a sustainable economy. Finally, to defeat poverty, Armenia needs to be able to take care of its people efficiently and effectively, while encouraging them to help themselves as much as they can.

Over the five-year period the USG can and will work to accomplish this strategy by focusing on the following priority goals, incorporating various **program areas and elements** of the Foreign Assistance Framework (codes noted in parentheses):

1. *To develop Armenia's ability to be a constructive and peaceful regional neighbor*, the USG will work in **peace and reconciliation processes** (1.6.2) to encourage the peaceful resolution of Armenia's troubles with its immediate neighbors and will **support stabilization operations and security sector reform** (1.3.1) to assist the GOAM in developing its peacekeeping potential. To prevent Armenia from becoming a financial crimes haven, the USG will work in the area of **financial crimes and money laundering** (1.5.1), and will work to **counter WMD proliferation and combat WMD terrorism** (1.2.1) and secure Armenia's nuclear facilities and material, while supporting Armenia's attempts at exporting its surplus energy to its neighbors.
2. *To bolster those institutions that effectively promote democracy*, the USG will empower **civil society** (2.4) and improve Armenia's **good governance** (2.2) and **political competition and consensus-building** (2.3). It will work in **defense, military and border restructuring, reform and operations** (1.3.6) to instill in the GOAM democratic principles on the use of the military.
3. *To improve Armenia's justice sector institutions and structure*, the USG will emphasize **law enforcement restructuring, reform and operations** (1.3.7) to improve Armenia's **judicial independence** (2.1.2), **justice system** (2.1.3) and respect for **human rights** (2.1.4). It will work with Customs and Border patrol authorities to **counter WMD proliferation and combat WMD terrorism** (1.2.1), and will train Armenian law enforcement in **counterterrorism** (1.1.3).

4. *To increase Armenia's private sector competitiveness and economic sustainability*, the USG will work to improve Armenia's **financial sector** (4.3), **infrastructure** (4.4), **private sector competitiveness** (4.6) and **clean productive environment** (4.8.2). The USG will also work in **agriculture** (4.5) and will use the benefits of the 2006 MCC Compact to accomplish work to improve Armenia's **transport services** (4.4.3) and **agricultural sector capacity** (4.5.2). The USG will also work to improve Armenia's energy security as well as its energy sector through **countering WMD proliferation and combating WMD terrorism** (1.2.1) and improving **modern energy services** (4.4.1).

5. *To enhance Armenia's health and human services through innovative institution building to assist the Armenian people*, the USG aims to fight **tuberculosis** (3.1.2) and **other public health threats** (3.1.5), to improve Armenia's **maternal and child health** (3.1.6), **family planning and reproductive health** (3.1.7), **water supply and sanitation** (3.1.8) and to provide **protection and solutions** for Armenia's most vulnerable populations (5.1.1). It will also work to improve Armenia's higher **education** (3.2.2) and **social services and protection for especially vulnerable populations** (3.3) through enhanced **policies, regulations, and systems** (3.3.1) social services (3.3.2), and **social assistance** (3.3.3).

D. Donor coordination

Over the five-year period, the Embassy will coordinate amongst USG agencies represented at post, those based in Washington and EUR/ACE and F through a variety of mechanisms. The post-wide Assistance Coordination Group, chaired by the Chief of Mission and organized by the Embassy Assistance Coordinator, will continue to meet biweekly to discuss general assistance issues, coordinate general assistance projects such as the U.S. -Armenia Joint Economic Task Force, the Community Connections program and the Mission Strategic and Operational Plans, to entertain unsolicited requests and to receive assistance guidance and direction from the Front Office. The Economic Officer will continue to represent agencies without personnel at post at ACG meetings, and those agencies will continue to be in close contact with EUR/ACE and F in Washington. The ACG will also assign working groups and subcommittees tasks of a general assistance nature requiring the input of several agencies. The Embassy Assistance Coordinator will continue to facilitate sessions of the Security and Law Enforcement Working Group, which meets on an ad hoc basis to discuss issues specifically related to security and law enforcement. The Embassy Assistance Coordinator will continue to maintain close contact with EUR/ACE, F and the Embassy Front Office to keep Washington and post management up-to-date on U.S. assistance trends.

Externally, the USG will work closely with the GOAM and the donor community in Armenia to complement and reinforce assistance efforts. The GOAM has stated that it is its duty to coordinate donor assistance efforts, but has not heretofore taken that responsibility seriously, outside of specific sectors. In lieu of direct GOAM coordination, the USG will continue to take an active leading role in donor coordination as a co-chair of Armenia's Donor Coordination Group—along with UNDP, the World Bank and the EU—that includes bilateral missions, international organizations and international NGOs. Though it has not generally co-financed the same assistance activities with other donors, as the largest single donor to Armenia, the USG has set the agenda for assistance and has worked to include other donors in its plans so as to

complement and not duplicate donor efforts. The USG will also continue to work with and support the efforts of international organizations of which it is a member, such as the OSCE, UN and others. On a working level, the USG is active in donor coordination focus groups that tackle specific assistance issues, particularly in times of crisis or great need.

III. Detailed Discussion of Priority Goals

Priority Goal 1: Developing Armenia's ability to be a constructive and peaceful regional neighbor

A. Situational Analysis/Problem Statement

Armenia's longstanding conflict with Azerbaijan over Nagorno-Karabagh (NK) has both harmed Armenia's economic development and heightened the risk of armed conflict with Azerbaijan. Currently Armenia has no diplomatic relations with Turkey or Azerbaijan. Settlement of the NK dispute and achieving consensus with Turkey on addressing shared history are critical to Armenia's full realization of democratic governance, sovereignty, independence and broad-based economic prosperity. Because the USG has friendly relations with all three countries, improving relations within the regional neighborhood is a primary and long-standing component of USG policy in the region. To this end, it has energetically supported cooperation mechanisms—particularly using its status as a co-chair of the OSCE Minsk Group process—to resolve the conflict over Nagorno-Karabagh.

The social benefits of a resolved conflict, though less tangible, would be appreciable. With open borders, Armenia would have a greater ability to move people and goods throughout the region. Increased ties would further facilitate management of cross-boundary issues such as trafficking in persons, shared natural resources and controlling pathogens, among others.

The March 1, 2008, deployment Armenia's armed forces to suppress political protests raised serious concerns about the involvement of the military in civilian affairs and the risks this poses to democratic development. The country's aging nuclear power plant and its uncontrolled radioactive sources pose proliferation as well as other risks to Armenia and its neighbors.

B. Critical Assumptions and Risks

Given recent concerns over the apparent use of the military for civilian policing, U.S. military assistance must focus on building principles of the democratic use of military power and avoiding the use of force against the civilian population.

Under international pressure to close its aging Nuclear Power Plant (ANPP) by 2016, the GOAM sees no alternative to building a new plant, as ANPP accounts for over 40 percent of the country's electricity supply. The USG will need to continue the work it began over a decade ago in providing for safety upgrades to the current plant to ensure its safe operation without encouraging extending its decommissioning date.

Armenia and its regional neighbors face health and safety risks from abandoned radioactive materials scattered throughout the country. Known as orphan radioactive sources, these pose a

health threat to persons who encounter them but also a proliferation risk should they come into the wrong hands.

C. Assistance Approaches

In pursuit of regional reconciliation, the USG will continue to support the growth of cross-border commerce, civil society and other people-to-people ties among the countries of the South Caucasus and Turkey. It will fund studies and assistance projects in technical areas, and cultural, professional and other exchanges that will demonstrate the benefits of greater regional cooperation. While Armenians will direct and drive these efforts, success in this objective will depend on the receptiveness of Armenia's neighbors. Therefore the USG will support not only Armenian-led efforts, but those of Turkish and Azerbaijani partners that will benefit Armenia. Above all, the USG must be very attuned to the opportunities that the regional players offer and become even more creative in defining and supporting such cross-border efforts. The regional situation in 2008 has highlighted as never before that the region can move toward reconciliation; the USG must be in the forefront of activities that tap into this signal opportunity. In many ways, it is because of these opportunities that this strategic goal is of the first order.

Should there be a breakthrough in Turkish-Armenian relations or an end to the conflict over Nagorno-Karabagh, the USG will need to address its assistance to the short-term economic consequences and longer-term opportunities such resolutions will create including sharp increases in Armenia's trade turnover, foreign direct investment and access to European markets.

The USG will continue to pursue opportunities to provide training to Armenian military officers in Western principles of democratic control of the military and development of an apolitical professional military system. The USG will also develop the General Staff and Ministry of Defense, with the aim for the GOAM to adopt Western military systems and values through its NATO Individual Partnership Action Plan. Moreover, to further the professional development of the Armenian military, the USG will facilitate senior Armenian officers' attendance at the National Defense University, the Army War College and the Command and General Staff College, with the goal to develop a corps of senior officers that not only understands and accepts Western values of civilian control of the military and the proper use of military power, but that is capable of implementing the necessary reforms to support Western values.

Prior to the expected 2016 decommissioning of the ANPP, to the USG will undertake several projects at the ANPP to enhance operational safety. The USG will assist Armenia's nuclear regulatory agency to enhance nuclear safety and security regulatory control over radioactive sources in Armenia. Over the five-year period, to the USG will also assist the GOAM in developing the nuclear safety and security licensing and inspection infrastructure necessary to exercise effective oversight of any future Armenian nuclear power plant. In addition, it will continue to provide radiation detection equipment and training to Armenian law enforcement agencies to increase their capabilities to detect and counter WMD proliferation. The USG will also seek to educate local industry on orphaned radioactive sources and other WMD components

The USG will take advantage of opportunities over the next five years to contribute to threat reduction. It will work to upgrade biological facilities and to conduct joint research and will

continue to support infrastructure investments and funding for young researchers to provide critical incentives for those with WMD-applicable expertise to remain in civilian research.

The USG will also encourage Armenia's status as a regional energy producer and will support GOAM efforts to enhance the region's energy security through the exporting of Armenia's surplus electricity to Georgia and further with Eastern Turkey, when a facility for doing so becomes available.

D. Coordination of USG Efforts

As the objectives under this primary goal are relatively discreet, the coordination of USG efforts to accomplish them will be minimal. That said, those agencies represented at post attend the biweekly meetings of the post-wide Assistance Coordination Group, at which assistance issues regarding all programs are discussed. Those agencies primarily based in Washington retain their contacts at post and at EUR/ACE.

E. Role of Host Country/Regional Organizations/Private Sector Partnerships

Reconciliation efforts with Armenia's neighbors will require the full participation of senior GOAM officials, with the Ministry of Foreign Affairs playing a central role. Training of military officers requires the cooperation of the Ministry of Defense, while issues of nuclear safety will obviate cooperation with the Ministry of Energy and Natural Resources as well as with the GOAM's nuclear regulatory agency. Each of these GOAM ministries has expressed support for USG efforts in this goal.

International and Armenian Diaspora donors occasionally fund research and studies promoting cross-regional dialogue and understanding. The Turkish-Armenian Business Development Council works to promote business and economic ties between the two countries. A number of nongovernmental organizations and think tanks promote cultural and media exchanges in the region. Recently, the British Embassy in Armenia has become increasingly involved in people-to-people projects between Armenia and Turkey, and has funded a few initiatives aimed at improving dialogue in the South Caucasus.

F. Anticipated Results

Success in this goal will mean increased popular pressure in Armenia and its neighbors for better ties among the countries and the establishment of cross-border cooperation mechanisms, which will, in turn, increase understanding between Armenians and their neighbors and work to demonstrate that conflict resolution and open borders would benefit Armenians. The creation and enhancement of a corps of senior military officers who support and implement democratic principles of military-civilian relations will benefit the security of Armenia and its neighbors, and will accomplish the cross-cutting benefit of promoting democracy and the rule of law. Enhanced nuclear safety, combined with advances in self-sustaining nuclear and other WMD-material regulation, will enable Armenia to harness greater control over its energy security, paving the way for it to become an important regional energy player once its conflicts with its neighbors are resolved.

Priority Goal 2: Bolstering those institutions that effectively promote democracy

A. Situation Analysis/Problem Statement

Armenia's post-Soviet transition to a democratic state has been negligible. While measurable progress has been made since independence in implementing constitutional reforms, improving electoral processes and procedures, solidifying a viable civil society and making government institutions more efficient and transparent, much of the change has been rudimentary and, in some cases, only cosmetic. Political power remains concentrated in the hands of a ruling elite linked closely with oligarchs. Most broadcast media remain in state hands or are controlled by businesses with ties to the government and, consequently, are either openly pro-government or refrain from criticizing the authorities; the much freer but relatively small print and internet media face occasional harassment, intimidation and retribution by administrative organs such as the tax authorities. The central government has slowed down fiscal and administrative decentralization. The National Assembly is an ineffective check against executive authority, as is a less-than-independent judiciary despite its having statutory oversight authority. Human rights violations persist, including the detention of political prisoners. The endemic and corrosive effects of corruption pervade every aspect of society and impede economic and political reforms.

Moreover, the May 2007 National Assembly elections—while showing some marginal improvement in administrative and procedural processes—were marred by ballot-stuffing, voter intimidation, vote-buying and other irregularities that guaranteed comfortable wins by the party in power and its allies. Presidential elections in February 2008 were worse in that their further irregularities cast doubt on whether the winner cleared the 50% threshold necessary to avoid a run-off. Those elections sparked mass opposition demonstrations that the GOAM violently suppressed, which caused the GOAM to impose a repressive state of emergency and to arrest over 100 of its political opponents.

B. Critical Assumptions and Risks

The conduct and aftermath of Armenia's 2008 election clearly revealed that while Armenia's geopolitical and commercial environment will continue to build pressure for reforms that will eventually transform Armenia's political and economic culture, much of Armenia's established political elite often seeks to slow the pace of change in order to maintain its prerogatives rather than drive democratic political reform. In response to the political crisis following the 2008 elections, the USG will prioritize working with advocacy NGOs, alternative and local media and reform-minded officials. De-emphasizing direct technical assistance to the GOAM includes direct support to entities that have been chronically resistant to good-faith cooperation and meaningful rather than superficial reforms, but does not rule out new opportunities to engage should particular individuals or entities become more cooperative.

Institutions that effectively promote democracy, including civil society NGOs, local government, alternative media, reform-minded officials and others, exist in Armenia and are a potentially potent force for the successful promotion of democracy and democratic values. Because of the continued unwillingness of the GOAM to loosen its grip on the levers of power, to hold free and

fair elections that meet international standards, to tolerate a genuinely independent and objective media that reflects diverse views, to enable a multi-faceted participatory civil society that acts as a critical conduit between the government and those it governs, USG programmatic efforts will opportunistically focus greater attention on these institutions that effectively promote democracy and de-emphasize direct technical assistance to recalcitrant GOAM entities. This demand-driven assistance approach is the most effective way for achieving the USG goal of democracy in Armenia which reflects US strategic interests in a safer and more prosperous region.

U.S. assistance programs will also continue to stamp out the menacing influence of corruption that threatens any democratic development through engagement with individuals, civil society and the GOAM.

To achieve this goal of democracy in Armenia the USG will continue to partner closely with UN organizations, OSCE, COE, EU and certain actors and institutions of the GOAM.

C. Assistance Approaches

The USG will support the work of advocacy groups, think tanks and watch-dog organizations that encourage greater civic participation in and analysis of democratic politics. While its efforts will continue to improve electoral and political processes, the USG will focus on political-party building, campaign finance and electoral code reform and will strengthen youth and women's involvement and activism. A national, grass-roots youth program promoting civic initiatives and volunteerism will continue to groom a new generation of community activists.

USG work with the National Assembly will target individual, reform-minded members and committees actively seeking levels of collaboration, while local government activities will emphasize revenue-generating service provision, capacity building and administrative competence. The USG will work with all levels of society to stamp out corruption, including those GOAM agencies that express a willingness to address corruption through strategic, legislative, judicial and enforcement mechanisms.

The USG's media activities will focus on bolstering alternative media such as the internet and local and regional newspapers, television and radio. The USG will continue to oversee educational and exchange programs, which encourage Armenians to develop a democratic attitude towards politics and civics that they can bring back to influence others in Armenia. The USG will continue to facilitate outreach efforts to key constituencies to connect with youth and civil society groups outside of Yerevan.

To encourage Armenia to pursue on the path of democratic reform, the USG will also leverage the GOAM's desire to maintain its MCA eligibility, which fulfills the GOAM's goal of increasing the economic prosperity of rural farmers through the construction of significant infrastructure. Keeping on track with democratic reforms thus serves as a guarantee of rural prosperity.

D. Coordination of USG Efforts

USAID and MCC will continue to work closely with the Public Affairs and Political-Economic Sections and with the Embassy Front Office through the post-wide Assistance Coordination Group.

E. Role of Host Country/Regional Organizations/Private Sector Partnerships

In addition to working with traditional partners, the USG will also reach out to non-traditional resources such as local and international businesses and the Armenian Diaspora through public-private partnerships to increase matching investments in sustainable development. This will not only help in leveraging development funds, but will also bring in new expertise and fresh perspectives, introduce third-party oversight and ownership of activities and address the sustainability of NGOs.

F. Anticipated Results

Because this priority goal strategy is based on lessons learned and rooted in real-world, in-country developments, it considers cost-effectiveness, realistic assumptions and results. With the accomplishment of this goal, the capacity of civil society groups to provide policy advice and serve as watchdogs will improve, as will the financial viability of NGOs and the legal and regulatory framework for them. Civil society organizations will play a key role in civic advocacy and promoting the political dialogue and reconciliation necessary to take Armenia beyond the aftermath of the 2008 presidential elections. Technical assistance will increase the professionalism and accessibility of alternative media, help alternative media become self-sustaining, increase the public's literacy in being able to consume internet-based information sources, and increase internet penetration in Armenia's rural communities.

When local governments provide essential services to their citizenry, the local business climate improves with the increased opportunities of public-private collaboration. This will lead to quality of life improvements and customer satisfaction through better services. This, in turn, fosters the development of vibrant and respected civil society development through social partnerships and private public partnerships.

Armenians' increased opportunities to combat corrupt practices will reduce the effects of pernicious corruption.

Commonly accepted indices such as the NGO sustainability index, Freedom House's media and electoral process scores and Transparency International's corruption perception index will measure progress in attaining this goal. Progress will also be measured in relation to targets set in the GOAM's Policy Program and relevant strategies, when appropriate.

Success in this goal permeates every other aspect of this Country Assistance Strategy. Only with a free society that honors and respects rights and does not tolerate corruption can Armenia become an effective regional neighbor that cares for its citizens and promotes their economic development. Civil society is also best-placed to encourage and support cross-border approaches that lead to regional peace and reconciliation.

Priority Goal 3: Improving Armenia's justice sector institutions and structure

A. Situational Analysis/Problem Statement

A multitude of challenges confronts Armenian justice sector, including the widespread belief that corruption is deeply rooted, a lack of professional management, limited resources, underdeveloped technical skills and, most importantly, an apparent systematic disdain for a modern human rights approach to law enforcement. Notwithstanding this bleak terrain, U.S. assistance can make progress, albeit incrementally, in raising Armenian justice sector standards so that development can proceed in the right direction.

B. Critical Assumptions and Risks

The will of the GOAM to change its authoritarian ways is weak. Affluent Armenian oligarchs control key trade and government positions. Over seventy years of Soviet rule has engrained a mindset of graft and corruption controlled by firm government rule. While most Armenians would welcome change, they view change as unachievable and the status quo as a necessary evil of life in Armenia. Mid and junior level law enforcement and judicial officers are fairly well educated and open to change but are tied to overbearing supervisors who have neither strategic thinking capability nor desire to change the current system.

Providing state of the art equipment and training on modern investigative techniques could be used to further strict government control over its citizens. Donated equipment may go unused after initial training or be used as a propaganda tool for the GOAM to claim that it is reforming.

Democratic reform grounded in the rule of law stimulates competition, innovation and progress while providing the necessary legal framework for free markets. Therefore, to reinforce checks on a dominant executive, the existence of a professional and independent judicial sector is a key prerequisite for success.

C. Assistance Approaches

Over the five-year period, the USG will work to increase law enforcement capability, capacity, technical expertise and professionalism so the justice sector can fairly and equitably enforce the law in accordance with international standards and human rights conventions.

Given the fact that in 2008 G/TIP classified Armenia as a Tier Two Watch List country for the fourth consecutive year, the USG will be actively engaged in the fight against trafficking in persons (TIP). The USG will work with GOAM officials, NGOs and international organizations to develop a National Referral Mechanism that will determine the responsibilities of Armenian institutions concerning TIP victims.

The USG will also support training for Armenian law enforcement officers dealing with organized crime, counter-narcotics and customs/immigration.

The USG will work to ensure that the Armenian criminal justice system is compliant with the European Convention on Human Rights and other international obligations. The USG will continue to train judges, prosecutors, defense attorneys and police, while focusing on bringing Armenian practices in accordance with the decisions of the European Court of Human Rights.

The USG will provide equipment and teach Armenian law enforcement and investigators terrorist crime scene investigation techniques to promote both the professionalism of local law enforcement and USG anti-terrorist interests.

The USG will continue to work to improve export control laws, licensing procedures for dual use products and enforcement procedures and to advance government-industry outreach to ensure manufacturers have a stake in governmental decisions as partners for economic growth.

D. Coordination of USG Efforts

USG agencies implementing assistance projects in justice sector development will continue to coordinate their efforts. In addition to the biweekly meetings of the post-wide Assistance Coordination Group, at which assistance issues regarding all programs are discussed, a separate, more focused Security and Law Enforcement Working Group meets about once a month to discuss assistance needs and trends particular to those agencies involved in the field.

Additionally, INL and EXBS work jointly on the projects related to border guards and border management. DOJ/RLA and INL offices using Treasury/OTA expertise will cooperate to carry out anti-money laundering efforts. The U.S. Army Corps of Engineers will complete the renovation of the INL-funded forensic lab during the five-year period. DOJ/RLA and INL will coordinate with G/TIP on projects to combat trafficking in persons. Programs targeting the police and National Security Service will be coordinated between RSO, INL, and the Bureau of Alcohol, Tobacco, Firearms and Explosives and the Drug Enforcement Administration. EXBS will work in coordination with DOE, DOD and INL to minimize opportunities for the proliferation of WMD material.

E. Role of Host Country/Regional Organization/Private Sector

The USG will work with the GOAM, international organizations (including OSCE, UNDP, IAEA, ISTC and IOM) and local and international NGOs to develop and implement programs designed to increase the capacity, knowledge and professionalism of Armenian law enforcement officers.

F. Anticipated Results

This goal's ultimate end is for Armenia to have an effective and professional justice sector that respects modern human rights standards and provides equitable treatment for all citizens. This, in turn, will improve cooperation and trust between law enforcement, the judiciary and civil society. Moreover, success of this goal will bring about improved evidence and data analysis and international accreditation for the independent forensic lab and the Financial Monitoring Center. Improved justice sector institutions will mean improved TIP victim assistance/protection and the successful prosecution of traffickers. Finally, an enhanced Armenian customs and

border patrol apparatus will translate into reduced customs processing times and increased use of risk analysis along with a reduced number of border incursions and increased numbers of smuggling arrests.

Moreover, by raising the professional standards and technical capabilities of Armenian justice sector and military personnel, US assistance will not only enhance such Armenian institutions, but it will also support USG goals of developing Armenia as an effective regional player in combating trafficking in persons, money laundering and terrorism, enhancing its economic growth and building on the culture of rule of law and democratic values.

Priority Goal 4: Increasing Armenia's private sector competitiveness and economic sustainability

A. Situational Analysis/Problem Statement

While Armenia has experienced high levels of GDP growth in recent years, a sharp deterioration in the economic outlook is expected due to the global financial crisis. Furthermore, while previous GDP growth has earned Armenia high ratings from several surveys as a place to do business, economic growth has not led to widespread prosperity. The country's economy remains plagued by inefficiencies due to closed borders with its neighbors, large segments of the economy concentrated in a few well-connected hands and high levels of corruption. Entrenched interests and their allies in the government often successfully fend off efforts to undertake substantive economic reform that promotes the private sector. Nevertheless, the USG aims to act on those opportunities the GOAM presents to reduce existing constraints to growth and enhance Armenia's weak private sector competitive position.

Corruption, lack of progress in second-stage economic reforms, an uninviting business environment, poor infrastructure, limited access to finance, low levels of foreign investment, an underdeveloped private sector and poor environmental compliance combine to form major obstacles to Armenia's sustainable growth. To make growth more sustainable and to address the impacts of the global financial crisis, the USG will work to increase the capacity, competitiveness and influence of Armenia's private sector. If the financial crisis leads to large increases in non-performing loans, considerations should be given to technical assistance for banking supervision and restructuring. With this assistance, the USG will help broaden the benefits of growth, reduce poverty and curtail oligarchs' power of economic control. Because reforms in this area are a key focus of the GOAM's 2008-2012 policy program, the USG can best take this opportunity to maximize the benefits of its assistance under this priority.

B. Critical Assumptions and Risks

The GOAM's ongoing commitment to reform will be a key success factor in any USG assistance in this area. Furthermore, key prerequisites for sustainability of USG efforts in increasing private sector competitiveness will be partnerships with diverse groups of civil society, including international and local businesses, Armenian Diaspora, think tanks and business associations.

While the implementation of the 2006 MCC Compact is well underway, the 2008 Presidential election and its aftermath have placed Armenia's commitments to democratic reforms in serious doubt; Armenia's continued eligibility for MCA assistance remains a question.

Energy security is a critical issue for Armenia's economy. The country imports all of its natural gas, gasoline and diesel. Natural gas prices in 2009 will likely double from 2008 levels, with smaller but significant increases for electricity. Armenia also faces the challenge of decommissioning its aging Soviet-era nuclear power plant by 2016 and building a replacement.

The appreciation of the Armenian dram has harmed the export sector and has reduced the value of overseas remittances, increasing the pressure on Armenian exports to be more competitive; however, on March 3, 2008, due to decreased levels of remittances and reduced export values, the Central Bank could no longer continue to support the dram and the currency rapidly depreciated. This may have a positive effect on exports, but inflation is likely to increase. Given the rapidly changing financial situation, Armenia needs to develop a better-functioning market and create conditions favorable to faster and more sustained economic expansion. The GOAM must move forward with second stage economic reforms and reverse policies and practices that are impeding private sector development. Without improvements in these areas, it will not be possible for Armenia to maintain its impressive recent growth rates, and there is a risk that it could suffer economic reversals, with serious social and political repercussions.

C. Assistance Approaches

During the five-year period, the USG will work to develop the potential of the private sector to compete in domestic and international markets by assisting it to become more market oriented and influential in GOAM policy making. One lesson learned from past assistance has been that focusing on job creation is insufficient, since transitory or low-paid jobs do not necessarily lead to development. More importantly, sustaining economic growth requires systematically addressing the root causes of Armenia's relatively weak competitiveness, for example, increasing research and development to foster innovation, expanding its participation in domestic and international markets, and increasing financial market efficiency. The USG, in coordination with other donors, will work with the GOAM to establish sound rules to facilitate the efficient, environmentally sound and transparent operation of a fair and fully competitive market economy and to improve the capacity of the private sector. It will also work to enhance access to credit for all businesses, increase trade and trade-related employment, and to improve essential public services. The USG will explore ways to strengthen the foundation for Armenia's energy independence and security, which will include regional energy integration, while seeking partnerships with the EU, international financial institutions, the private sector and others to leverage funding for energy and infrastructure investment. While USG assistance will unlikely play a large role in supporting Armenia's efforts to replace the ANPP, the USG will actively seek ways to support Armenia's energy independence

While the USG does not intend to address biodiversity directly as a core component of this strategy, its programs may affect it indirectly.

The USG will work with financial institutions to improve their lending culture and business processes to make credit and other financial services more readily available to those businesses

competing for resources in an oligarch-dominated economy. The USG will also focus on making the financial sector more stable and robust by encouraging competition and by improving Armenia's financial regulatory environment.

The USG will continue to address the poor quality of Armenia's rural infrastructure by improving the country's rural roads and irrigation systems and by providing training and credit assistance to farmers per the 2006 MCC Compact. Additionally, the USG will develop a public-private partnership, supplemented by the local private sector and diaspora, to assist rural and vulnerable communities in carrying out public works projects.

The USG will continue to provide industry-specific training with U.S. businesses on market-economic principles, business development, quality standards and fair business practices to support the goal of enabling market-based private sector competitiveness and economic stability.

The USG will continue to support the GOAM's capacity to ensure a safe food supply and safeguard animal and human health.

D. Coordination of USG Efforts

The post-based representatives of USAID, USDA and MCC and the Economic Officer, the primary contact for DOE and DOC, attend the biweekly meetings of the post-wide Assistance Coordination Group, at which assistance issues regarding all programs are discussed. The capacity-building approach of USAID and USDA complements MCC's infrastructure development and those agencies work closely together. The Political-Economic section works with the U.S. business community to support its advocacy efforts in the area of business regulation and works regularly with the other agencies to share information and support each others' initiatives.

E. Role of Host Country/Regional Organizations/Private Sector Partnerships

Over the five-year period, the USG will seek GOAM engagement in public-public partnerships to target initiatives beyond technical assistance and Armenian Diaspora involvement in ways that will optimally achieve USG goals and those of dedicated development partners. Local and international businesses are also prime targets for partnership, whether through Corporate Social Responsibility programs or other more targeted alliances. The GOAM is a natural partner to the USG in involving private companies or foundations to co-invest in areas of common interest and mutual political will.

The role of the GOAM under the MCA-Armenia Program is founded on the principle of country ownership, with the GOAM acting as the principle designer and implementer of the program.

F. Anticipated Results

Accomplishment of this goal will mean an improvement in the private sector's ability to be more competitive regionally and internationally, resulting in higher sales, increased profits and more exports. Outcomes of these activities will also increase the capacity of businesses and professional associations to advocate for sound public policies, improve business

competitiveness, lower entry barriers, enhance quality of business development services and increase utilization of innovative business technologies. These improvements in the business environment will lead to reduced corruption, increased foreign and domestic investment and improved economic performance indicators. Financial institutions will enhance their abilities to manage risks and expand the array of their financial and loan products and services. Businesses will have better access to credit, longer loan terms and more competitive pricing, and the resultant business expansion will increase the ratio of private share of credit to GDP. Decreased reliance on construction and remittances to fuel growth will enable a more diversified and sustainable economy. The GOAM or private investors will pay a larger portion of infrastructure improvement, lessening dependence on foreign assistance. Rural farmers and related agribusiness will have improved incomes, through rural road rehabilitation, irrigated land expansion and training in on-farm water management and higher-value agriculture techniques. Food safety and animal health standards will improve, and the GOAM will adopt means to ensure a safe food supply to all Armenians. Enhanced energy security will reduce costs and risks of doing business in Armenia, thereby making Armenia a more attractive environment for investment.

These results relate directly to Armenia's ability to be an effective regional trading partner as well as contribute to a culture of rule of law and fair competition, which poses a direct threat to pervasive corruption. Finally, the extent that citizens on both sides of borders perceive there to be economic benefits to the opening of the borders will be the key to advancing politically on peace and reconciliation.

Priority Goal 5: Enhancing Armenia's health and human services through innovative institution building to assist the Armenian people

A. Situational Analysis and Problem Statement

As Armenia has slowly recovered from an almost complete economic collapse, poverty has gradually decreased and the GOAM has reestablished its health and social protection systems. Nevertheless, Armenia's legacy of centrally-managed, poor-quality and insufficiently funded health and human services severely constrains the country's ability to provide adequate services to its citizens, impeding development and undermining political stability.

Among low-middle income countries, Armenia ranks among the lowest in public spending for health and human services. Low public spending increases out-of-pocket expenditures for health, meaning access to care often depends on a household's ability to pay for it. Inadequate water and sanitation services further impact health and welfare. A high poverty rate and the GOAM's limited ability to provide social services to vulnerable populations aggravate the situation. Despite a declining poverty rate, in 2008, almost one in three persons in Armenia still lived in poverty and 4.1% of the population lived in extreme poverty. The GOAM has recognized these issues and has taken proactive steps to increase social sector spending. In 2007 the GOAM committed itself to increasing government health expenditures from 1.3% to 2.2% of GDP by 2015. In addition, the GOAM actively promotes key reforms such as the introduction of primary health care and pension reform. Finally, social integration and consolidation and the development of health and human services are key government priorities.

The USG will focus its efforts to help Armenia improve the quality of primary health care services and to enhance its social protection systems while simultaneously increasing the capacity of the GOAM to implement social reform.

B. Critical Assumptions and Risks

The GOAM's continued commitment to reform, particularly its increase of public funding for health and social services, predicates the attainment of this goal. This strategy also foresees no major changes in health trends, an absence of natural or man-made disasters and the same or steadily improving economic conditions once the effects of the current global crises are overcome.

Steady and increased tax collection in Armenia will be imperative to providing a base for funding essential health, social and education services. Moreover, any dramatic reduction in remittance levels will result in an increase in demand for government assistance and subsidies. In addition, the GOAM needs to ensure the adequacy and administrative capacity of the social protection systems to guarantee coverage for people with special needs.

While consistent levels of foreign assistance will be essential to achieve this goal, the USG will constantly look for opportunities to leverage resources to fund its social sector programs. The USG will continue to reinforce the GOAM's role in supporting and advocating for basic health and social services for its citizens, particularly in light of the ever-decreasing USG assistance budget to Armenia. Over the five-year period, proactive negotiations for cost-sharing at the local, regional and national level will continue throughout all USG-supported health and social programming. The USG, through USAID, will provide direct technical assistance to NGOs and programs to develop income generating schemes that seek out public-private and public-public partnerships as well as assistance from Armenian Diaspora groups and foundations. USAID will work with fellow donors to meet these NGOs' budgeting needs. By diversifying program funding sources, the USG will leverage limited funds towards critical U.S. development objectives.

Failure to attain this goal will result in further disabilities, preventable deaths and greater poverty and suffering, leading to slower economic growth and further political instability. The resultant increased dependency on USG and other donor assistance will serve to undermine Armenia's independent capacity and ability to support thriving health, and social sectors.

The 2008 Georgian conflict highlighted the need to continue the Department of State's Humanitarian Assistance program in Armenia, which for more than a decade has worked tirelessly to distribute food, medicine and clothing to the Armenian people. Regardless of when this program is phased out, its administration and implementation must be adapted to make the program more sustainable and encourage Armenia's institutions to assist its most vulnerable populations.

C. Assistance Approaches

USG programming over the five year period will build upon accomplishments of past programs, continuing to complement GOAM efforts to provide sustainable, high-quality health and human

services for Armenia's population. The USG will promote the adoption of international best practices, policy reforms and system strengthening for enhanced efficiency throughout the health and social sectors. The USG will address the continuing challenge of improving the quality and efficiency the Armenian health care system while focusing on ensuring access to health care in rural areas. The USG will concentrate on improving maternal and child health, family planning and reproductive health, tuberculosis prevention, health system strengthening, non-communicable diseases and water and sanitation, thereby contributing to a significant reduction in morbidity, mortality and abortion rates in Armenia. The USG will target support for public social insurance program reform. Specifically, the USG will support pension reform implementation to ensure that pensions are adequate and fiscally sustainable. The USG will work to improve social assistance benefits and services to the most vulnerable. It will also work to enhance labor markets, occupational safety and health, and to increase public-private partnerships in service provision.

To assist the Armenian people more comprehensively, the USG will need to graduate its humanitarian assistance programs to a self-sufficiency and capacity building approach to development. This will be a challenging transition as the need for assistance to vulnerable populations is great and sustainable approaches to development are longer-term investments. To leverage years of humanitarian assistance expertise, however, the USG will encourage current humanitarian assistance implementers to develop sustainability plans to foster their financial independence while also promoting their complementarities to existing USG development programs with an eye to helping vulnerable and neglected populations to help themselves. The USG will encourage an increased role for NGOs and civil society groups in these kinds of humanitarian development programs through mechanisms that foster community involvement.

Meanwhile, the USG will continue to provide targeted humanitarian assistance that complements and promotes synergies between existing development programs. The USG will continue to lead community based people-to-people efforts to support capacity building in small communities.

Finally, the USG will focus on strengthening higher education and workforce development that will directly contribute to the USG's other priority goals. The USG will also continue to fund exchange programs that give Armenians the opportunity to study in the U.S.

The USG works closely with the World Bank, the UN, the GOAM's Ministries of Health, Labor and Social Affairs, and Education and other donors and GOAM entities to promote shared priorities and cost effective assistance measures.

D. Coordination of USG Efforts

Currently DOD's ODC and USAID work very closely together to complement sustainable systems strengthening programs with humanitarian assistance efforts. Humanitarian assistance implementers will begin to collaborate with USAID to develop innovative leveraging mechanisms to transform what was once humanitarian assistance into sustainable development programs. In addition, the CDC and DOD's Biological Threat Reduction Program closely coordinate their efforts in the region with appropriate USG entities in Armenia.

E. Role of Host Country/Regional Organizations/Private Sector Partnerships

The USG will continue to work closely with the GOAM's Ministry of Health and Ministry of Labor and Social Issues to achieve this goal. In addition, as the NGO community's role in providing social services to vulnerable populations has grown, the GOAM has successfully contracted with NGOs for cost-effective, locally-oriented services. The GOAM has taken budgetary and administrative steps at the central and local level to institutionalize social contracting. The USG will actively promote NGO/GOAM collaboration in social partnerships and build upon the success of previous programs to promote the outsourcing of social services. Over the five-year period, USAID will focus on building the GOAM's capabilities to plan, procure and monitor outsourced services to foster institutionalized public-private partnerships.

F. Anticipated results

Successful attainment of this goal will mean increased use of high quality primary health care services and improved health system finance and efficiency. Easier access to better health care will encourage an improved health culture that includes preventive and care-seeking behavior, which will lead to ever-increasing demand for high quality health services. The development of a sustainable public social insurance system will lead to adequate and better targeted social benefits and improved quality of social services to vulnerable groups. In addition, an Armenia wherein the majority of the population is well cared for will be an Armenia better able to interact effectively with—and without animosity towards—its neighbors.

IV. Resource Assumptions

A. General level of resources required

This strategy bases programmatic directions to accomplish the five priority goals on the assumption that while there will be a slight decrease in annual FSA appropriations, Armenia will still benefit from relatively stable budget allocations over the next five years. This approach assumes that, as has been the case during the last 20 years of USG assistance to Armenia, the efforts by the Armenian Diaspora that have historically led to significantly higher levels of Congressional appropriations in relation to the Administration's requests will continue to have an impact. Were total budget levels to decrease further, there would be a serious programmatic impact on the portfolio that would lead to the elimination of certain program areas under the priority goals. It is assumed that country levels will decline from about \$50 million in FY09 to \$40 million to \$35 million over the planning period.

B. Proposed shifts from current allocation

While USG assistance to Armenia has remained relatively robust despite sharp budget declines in the region, country levels declined in the last five years from \$89 million in FY2003 to about \$58 million in 2008. Given this trend of declining funds, our programs will need to be smaller, with fewer components, and shorter durations. In GJD our priorities are alternative and local media, advocacy NGOs, and political process oriented toward engagement of grassroots activists. In EG our high priorities are tax, energy & trade. In IIP, our high priorities are pension/labor market reform and primary health care, maternal and child health/family planning, healthcare quality and financing.

C. Expected external contributions

The Armenian-American Diaspora is a special partner for development and fund leveraging. The USG views the involvement of major Diaspora organizations in its programming as one of the ways to ensure USG assistance sustainability, since these organizations could become investors or sources for follow-up funding for the programs that the USG phases out. The USG also sees local and international businesses as prime targets for partnership, whether through corporate social responsibility programs or other more targeted alliances.

This strategy emphasizes empowering institutions that effectively promote democracy and shifting the assistance approach towards certain segments of the GOAM and civil society that have the potential of generating national prosperity during its five-year period. This approach will clearly lead to more opportunities for public-public and public-private partnerships in all areas of USG assistance in Armenia. The GOAM is a natural partner in three-way consortia involving private companies or foundations co-investing along with the USG in areas of common interest and mutual political will. Therefore, this strategy envisions a number of new partnerships with the GOAM in targeted initiatives across sectors in a form of public-public or public-private partnerships.

D. Increased funding scenario

Assuming the GOAM complies with relevant conditionalities pertaining to the reform process and to democracy and human rights, the USG would direct increases in the assistance budget to expand our response to the financial crisis at both the macro and micro levels as well as broaden our efforts in support of development of democratic institutions, the sustainability and competitiveness of the country's economy, and its capacity to provide adequate health and social services to its citizens. Specifically, we could broaden our civil society programming to include major initiatives with both national level advocacy groups and community based organizations. If our pilot activity with the National Assembly proves promising we could expand our parliamentary strengthening activities. We could also continue our support for local government. With additional resources, we could widen energy sector assistance to more adequately address energy efficiency, renewables, nuclear and regional integration. We could also assist the Public Services Regulatory Commission provide oversight of the telecommunications sector. We could also expand activities in infectious disease (tuberculosis) and health promotion.

E. Decreased funding scenario

While a gradual decline in resources is anticipated, a steeper drop in the country budget would necessitate a greater focus and concentration within each of the five priority assistance goals. In such a scenario, the USG would focus its GJD assistance on the "demand" side of the political equation in the political marketplace, promoting synergies between civil society, alternative media, and political parties as a core aim, to ensure support for an informed organized populace to participate actively in public life. Post would likely need to discontinue assistance for decentralization and capacity building of local governments, as well as close out assistance to the law enforcement institutions and the judiciary.

A core priority of the economic growth portfolio is improving the capacity, competitiveness and influence of the private sector. Supportive, but less direct assistance, such as financial sector assistance not directly relevant to businesses' access to financing, would be discontinued. While the entrance of a third mobile operator to telecom market is a significant window of opportunity to accelerate economic liberalization, such assistance is secondary to the critical aim of working to develop the potential of the private sector to compete in domestic and international markets. The USG would also be faced with narrowing its energy sector programs.

Within the IIP objective, the decline in funding already necessitates a wind-down of health facility renovation, and cessation of education programs. Core objectives of primary health care and pension/labor market reform would continue, but initiatives to leverage private sector and other donor resources to ensure the sustainability of rural health care system and support for vulnerable populations would be subject to reductions.

Were the 2006 MCC Compact dissolved, work in rehabilitating rural roads, improving irrigation networks and training farmers would cease.

V. Appendices

A. Bibliography of Relevant Technical Analyses

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B. Country Analysis Requirements:

With respect to USAID programs, Country Assistance Strategies must include required biodiversity and tropical forests analyses, as required by Sections 118(e) and 119(d) of the Foreign Assistance Act of 1961, as amended. While discussion based on their content is incorporated in the main text of the CAS, the full analyses are included in the Appendix. This analysis is pending.

C. Empirical Analysis of Armenia Country Assistance Strategy Goals

Background - The following matrices examine the five goals of the CAS and their program areas and elements. Indicators from the USAID Europe and Eurasia Bureau's Monitoring Country Progress (MCP) system can measure many of the program areas. This standardized system provides ratings on a 1 to 5 scale, with 5 being the highest possible score. MCP indicators are compared against a threshold that averages the scores of Romania, Bulgaria and Croatia (RBC) in 2006, the year these countries graduated from USAID assistance. The Gap Analysis column provides contextual data and information on each program area, whether or not it is directly measured by MCP. The E&E Bureau undertook the Gap Analysis of Armenia in 2008 and data sources are cited.

Goal 1 *To develop Armenia's ability to be a constructive and peaceful regional neighbor*, the USG will work in **peace and reconciliation processes** (1.6.2) to encourage the peaceful resolution of Armenia's troubles with its immediate neighbors and will **support stabilization operations and security sector reform** (1.3.1) to assist the GOAM in developing its peacekeeping potential. To prevent Armenia from becoming a financial crimes haven, the USG will work in the area of **financial crimes and money laundering** (1.5.1), and will work to **counter WMD proliferation and combat WMD terrorism** (1.2.1) and secure Armenia's nuclear facilities and material, while supporting Armenia's attempts at exporting its surplus energy to its neighbors.

Goal Program Area	MCP Indicator	Gap Analysis
Peace and reconciliation processes	Not measured by MCP	Some progress has been made, including successful dialogues on the social and economic benefit of opening the Turkish-Armenian border and harmonization by water authorities in Georgia, Armenia, and Azerbaijan on methodologies for collecting and exchanging water-quality data. However, regional presidents have yet to sign a basic principles agreement on interim settlement of Nagorno Karabakh. Discussions between Armenia and Turkey have not yet created a steady dialogue, though the visit of the Turkish President to Armenia in 2008 was a positive sign that an opportunity is in the offing. (Data: 2010 Mission Strategic Plan)
Support stabilization operations and security sector reform	Not measured by MCP	Armenia's peacekeeping battalion is fully equipped with NATO interoperable equipment and nearly full strength but it is not fully trained and creation of a peacekeeping brigade has not yet begun. An expeditionary medical support system (field hospital) arrived in country and initial training of Armenian personnel is conducted. The President has signed into law the National Security Strategy and the National Military Doctrine, which had been coordinated with NATO, the U.S. and Russia. (Data: 2010 Mission Strategic Plan)
Financial crimes and money laundering	<u>Money Laundering</u> 5.0 out of 5.0 (Not listed as a money laundering country in the State/INL, International Narcotics Control Strategy Report)	Although Armenia joined the Egmont Group of Financial Intelligence Units, its FIU needs to improve compliance with Financial Action Task Force standards by adopting limitations on bulk cash imports. GOAM has yet to obtain its first convictions for money laundering. (Data: 2010 Mission Strategic Plan)
Counter WMD proliferation and combat terrorism	<u>Terrorism index</u> score of 4 on a 5 point scale (higher score indicating less terrorism) RBC 2006 Threshold 3.9 WMD not measured by MCP.	Index raw score was "3" – the total number of security incidents and victims measured between January 2006 and March 2007. (Data Source: State Terrorism Reports) Armenian Customs and Border Forces need to increase inspection and detection efforts focused on WMD and dual use products. GOAM has yet to obtain its first convictions for terrorism financing offenses. Customs and Border Forces have yet to implement WMD nonproliferation training courses into training academy curriculums. (Data: 2010 Mission Strategic Plan)

Goal 2 *To bolster those institutions that effectively promote democracy*, the USG will empower civil society (2.4) and improve Armenia's **good governance** (2.2) and **political competition and consensus-building** (2.3). It will work in **defense, military and border restructuring, reform and operations** (1.3.6) to instill in the GOAM democratic principles on the use of the military.

Goal Program Area	MCP Indicator	Gap Analysis
Empower civil society	<u>Civil Society</u> score is 3.3 out of 5.0. The RBC 2006 threshold is 4.0. Data: Freedom House Nations in Transit 2007	Armenia's score is the same as in 1999. NGOs remain hampered by financial constraints and a reliance on external funding. Progress in developing legislation to improve the financial sustainability of civic groups stalled in 2007. The government is engaging more with civil society, but increased state funding for such groups raises fears that their independence will be compromised.
Improve Armenia's good governance	<u>National Governance</u> score is 2.2 out of 5; Local Governance score is 2.0 out of 5. RBC 2006 threshold is 3.4 for <u>National Governance</u> and 3.5 for Local Governance Data: Freedom House Nations in Transit 2007	Indicators have backslid by almost a full point each since 1999 <u>National Governance</u> : Although progress was made in harmonizing Armenia's legislation with the revised Constitution (amended in 2005), the balance of power continues to lie with the presidency and the government. Recent elections further entrenched the close links between business and politics. Although the legislative framework for improved governance is being strengthened, concrete steps toward a more accountable political system and more even distribution of the balance of power are lacking. <u>Local Governance</u> . Some progress was made toward drafting legislation that would enable the decentralization of authority to local bodies in 2007. Reliance on transfers from the state budget for around 60 percent of revenues continues to impede local governments' autonomy in 2007, as do their absence of powers to set local tax rates. New legislation to decentralize government authority has yet to be enacted.

<p>Political competition and consensus-building</p>	<p><u>Electoral Process</u> score is 2.0 out of 5.0. <u>Independent Media</u> Score is 1.8 out of 5.0. RBC 2006 Threshold is 3.9 for Electoral Process and 3.2 for Media. Data: Freedom House Nations in Transit 2007</p>	<p><u>Electoral Process</u>: The failure of authorities to ensure democratic elections has contributed to a lack of public confidence in the electoral process and to the violence and repression on and after March 1, 2008. Despite reforms to the electoral code improving procedures for the tabulation and release of results and voter registration, shortcomings in elections stem from the implementation of the electoral framework rather than the framework itself. The consolidation of power among Armenia’s business and political elite has reduced the already low opportunity for rotation of power. <u>Independent Media</u>: Concerns exist over the independence of the broadcast media and the high degree of influence over editorial decisions by political and business interests, financial vulnerability of media outlets, inadequate regulation by and independence of the National Council for Television and Radio (NCTR), as well as actions against journalists and media outlets. There are no significant alternative broadcast sources of information since A1+ lost its broadcast license in 2002.</p>
<p>Defense, military and border restructuring, reform and operations</p>	<p>Not measured by MCP</p>	<p>Armenia leads all countries of the CIS in arms imports (\$151 million in 2004) and ties Belarus for the largest percentage of military personnel to total population (3.8%) Data: World Development Indicators 2007</p>

Goal 3 *To improve Armenia's justice sector institutions and structure*, the USG will emphasize **law enforcement restructuring, reform and operations** (1.3.7) to improve Armenia's **judicial independence** (2.1.2), **justice system** (2.1.3) and respect for **human rights** (2.1.4). It will work with Customs and Border patrol authorities to **counter WMD proliferation and combat WMD terrorism** (1.2.1), and will train Armenian law enforcement in **counterterrorism** (1.1.3).

<p>Goal Program Area</p>	<p>MCP Indicator</p>	<p>Gap Analysis</p>
<p>Law enforcement restructuring, reform and operations</p>	<p>MCP <u>Transnational Crime Index</u> is 3.8 out of 5.0. (RBC 2006 is 3.9) Index Components for Armenia include (out of 5.0): Money Laundering – 5.0 Trafficking in Persons – 2.0 Piracy of Intellectual Property Rights – 2.0 Criminalization of the State – 2.0</p>	<p>Police interconnectivity project is completed. Police Induction Center completed and new training curricula in use. Border Management Information System is on schedule. Drafting of the new criminal procedure code has not been completed. There has been no prosecution of government officials for complicity in TIP. (Data: 2010 Mission Strategic Plan)</p>
<p>Judicial independence/ justice system</p>	<p>MCP <u>Rule of Law</u> score is 2.3 out of 5.0. The RBC 2006 Threshold is 3.3</p>	<p>Concerns remain at the influence of the executive over the judiciary. Prosecutors have lost the right to conduct pre-trial investigations; this prerogative passes to the police and the national security service. The majority of detainees from the March 1 2008 demonstrations remain in prison. No one has been held responsible for numerous due process violations and ill-treatment during the apprehension or in custody. The few detainees that have been released had to confess to their participation in mass disorders and face conditional sentences. (Data: Freedom House Nations in Transit 2007, Human Rights Watch 2008)</p>
<p>Human rights</p>	<p>Not measured by MCP</p>	<p>The events of March 1 2008 represent the second largest death toll in Europe and Eurasia since the breakup of the Soviet Union caused by government firing upon demonstrators. Only the attack on demonstrators in Andajan, Uzbekistan in 2005 was larger. According to State Department Human Rights Reports, a single documented death in Azerbaijan in 2003 is the only other case of post election violence turning deadly in Europe and Eurasia. On a per-capita basis, 10 deaths in a country of 3 million is a higher toll than the government crackdowns in Burma in 2007 or China in 1989. (Data: State Department Human Rights Reports, Media Accounts)</p>

Goal 4 *To increase Armenia's private sector competitiveness and economic sustainability*, the USG will work to improve Armenia's **financial sector** (4.3), **infrastructure** (4.4), **private sector competitiveness** (4.6) and **clean productive environment** (4.8.2). The USG will also work in **agriculture** (4.5) and will use the benefits of the 2006 MCC Compact to accomplish work to improve Armenia's **transport services** (4.4.3) and **agricultural sector capacity** (4.5.2). The USG will also work to improve Armenia's energy security as well as its energy sector through **countering WMD proliferation and combating WMD terrorism** (1.2.1) and improving **modern energy services** (4.4.1).

Goal Program Area	MCP Indicator	Gap Analysis
Macroeconomic foundation for growth	<u>Second Stage Economic Reforms</u> . Average 2.3 points out of 5.0 RBC 2006 Threshold – 2.9 Data: EBRD 2007	Good progress has been made in first stage reforms (privatization, price liberalization, trade & foreign exchange). However, gaps still remain in the second stage reforms vis-à-vis the threshold achieved by Bulgaria, Romania and Croatia at graduation, including enterprise restructuring, competition policy, banking reform, non-bank financial reform and infrastructure reform.
Trade and investment	<u>Export Share and Composition</u> . 2.0 out of 5.0. RBC 2006 Threshold – 2.9 Data: World Development Indicators 2007 <u>FDI per Capita</u> 2.0 out of 5.0 RBC 2006 Threshold – 4.7 Data: EBRD 2007	<u>Trade</u> : Only 27% of Armenia's GDP is generated by exports. 71% of exports are manufactured goods, but only 0.5% of exports are high tech. Armenia's outward orientation, as measured by exports as a percentage of GDP, is lower today than in the early 1990s Armenia's export share of GDP has trended downward since 2003 and is below its Caucasus' neighbors as well as Bulgaria and Romania. <u>Investment</u> - Cumulative foreign direct investment is low at \$490 per capita through 2006 as compared to an average of \$1,856 for Bulgaria, Romania, Croatia in 2006
Financial sector	<u>Banking Reform</u> 2.7 out of 5, RBC 2006 Threshold – 3.6 <u>Non-Bank Financial Reform</u> 2.0 out of 5.0 RBC 2006 Threshold – 2.7 Data: EBRD 2007	Armenia's domestic credit (extent to which the financial system generates credit for the economy, measured as a percent of GDP) is about 20 percent, compared to Bulgaria, Romania, and Croatia at 48 percent, and the Northern Tier at 51 percent. A survey by the World Economic Forum's Global Competitiveness Report of businesses on financial market sophistication shows Armenia with a score of 2.7, which is below the Bulgaria, Romania, Croatia average of 3.6 and the Northern Tier average of 4.5
Infrastructure	<u>Infrastructure Policy</u> 2.3 out of 5.0. RBC 2006 Threshold – 3.1 Data: EBRD 2007	According to the Global Competitiveness Report's ranking of the perceived quality of a county's overall infrastructure, Armenia ranks 87 out of 131 countries (1 is the best ranking while 131 is the worst). This standing is close to Bulgaria's ranking of 84, yet better than Romania's ranking of 100, while much short of Croatia's ranking of 53.
Private sector competitiveness	<u>Services as % of GDP</u> : 1.0 out 5.0 RBC 2006 Threshold 3.3 <u>Share of Employment in MSMEs</u> 1.0 out 5.0 RBC 2006 Threshold 3.7 Data: International Finance Corporation MSME Database	Several economic structural changes have been slow to occur. There has been a small proportion of the micro-, small-, and medium enterprises (MSME) represented in total employment in the economy (34.0% of total employment), below or well below the levels of most other transition economies. Likewise, the service sector as a portion of the overall economy is well below the thresholds (25% vs. 58% for RBC)
Clean productive environment	Not measured by MCP	Forest cover has declined by 18% between 1990 and 2005, and by 7% between 2000 and 2005. Data: World Resource Institute 2006
Agriculture	Not measured by MCP	Around 51% of cropland is irrigated. Data: WDI 2004
Transport services	Not measured by MCP	In 2005, 90% of roads were paved, down from 99% in 1990. Data Source: WDI 2007
Modern energy services	<u>Energy Security</u> . 2.5 out of 5. Compared to RBC '06 threshold of	Armenia is the third most energy dependent country in the CIS, after Moldova and Belarus. Net energy imports account for 66% of energy use.

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Goal 5 *To enhance Armenia's health and human services through innovative institution building to assist the Armenian people*, the USG aims to fight **tuberculosis** (3.1.2) and **other public health threats** (3.1.5), to improve Armenia's **maternal and child health** (3.1.6), **family planning and reproductive health** (3.1.7), **water supply and sanitation** (3.1.8) and to provide **protection and solutions** for Armenia's most vulnerable populations (5.1.1). It will also work to improve Armenia's **education** (3.2) and **social services and protection for especially vulnerable populations** (3.3) through enhanced **policies, regulations, and systems** (3.3.1) and **social assistance** (3.3.3).

Goal Program Area	MCP Indicator	Gap Analysis
Tuberculosis and other public health threats	<u>TB Incidence</u> 2.0 out of 5.0. RBC '06 threshold 2.7	TB incidence has risen from 17 cases per 100,000 population to 59 cases per 100,000. – an increase of 247%. Data: WHO 2007
Maternal and child health	<u>Under 5 mortality</u> 4.0 out of 5.0, point below RBC '06 threshold 2.3	At 24 deaths per 100,000 population, the under 5 mortality rate has dropped by 57% from 1990 to 2006. Data: WDI 2007
Family planning and reproductive health	Not measured by MCP	Contraception prevalence was 53% of women 15-49 in 2005 – down from 60% in 2000. Data: WDI 2007 The percentage of women receiving prenatal care was 93% in 2005, up from 82% in 1997. Data: WDI 2007
Water supply and sanitation	Not measured by MCP	The percentage of the population with access to improved sanitation facilities remains stagnant (83% in 2004, compared with 84% in 1995) Data: WDI 2007
Social services and protection for especially vulnerable populations	<u>Vulnerable Populations</u> – 1.0 out of 5.0 RBC '06 threshold 4.0	54% of children and 47% of adults are below the poverty line. Within the CIS, these are the highest poverty rates for vulnerable populations outside of Central Asia and Georgia. Data: World Bank 2005, UNICEF 2007
Policies, regulations, and systems	<u>Public Expenditure on Health and Education</u> – 1.0 out of 5.0 RBC '06 threshold 3.2	At 1.8% of GDP, Armenia's per capita public expenditure on health is the third lowest in the CIS (after Tajikistan and Azerbaijan) Data: WDI 2007 <u>Expenditures on Education</u> are 3.2% of GDP; a slight decrease since 1999 and the third lowest in the CIS (after Georgia, Azerbaijan and Kazakhstan) Data WDI 2007

Addendum to the Country Assistance Strategy Armenia 2009-2013
Armenia – Financial Crisis Impact and Response

March 19, 2009

This document, an addendum to the Armenia Country Assistance Strategy for the period FY 2009-2013, reflects the country's new strategic environment following the impact of the global financial crisis. It seeks to clarify adjustments to USG assistance objectives and programs.

Crisis

The global financial crisis will pose new challenges for Armenia, while simultaneously threatening to roll back economic gains of the past. Although Armenia's financial services market is not greatly exposed to international capital markets, Armenia relies heavily on remittances, mining and the construction sector as engines of growth, all of which have been significantly hit by the crisis. The strain on the main drivers of growth will weaken domestic demand. At the same time, external trade will decrease due to the effects of the crisis on Armenia's main export markets. The lack of market diversification, decreases in domestic demand and external trade, resulting increases in unemployment, and lack of access to credit will threaten Armenia's transition towards a market-oriented democracy and its ability to become a stable and reliable partner of the U.S.

Response

Through its core programs, USAID will continue to support the sustainability and competitiveness of the country's economy, the development of its democratic institutions, and its capacity to provide adequate health and social services to its citizens, while giving greater attention to countering the effects of the global financial crises and capitalizing on prospects for improved relations with Turkey to promote regional integration.

USAID, by leveraging funds from the private sector and other donors, will take both a macro- and a micro-level approach in addressing the financial crisis. The following macro-level responses will focus on medium- and long-term impacts by: 1) Providing technical assistance to improve SME access to finance, 2) Improving the capacity of the State Employment Service Agency (SESA) to provide vocational training and retraining to vulnerable groups of workers, link employers with unemployed workers, and assist in job creation through public and community works, and 3) Supporting SME development and exports by launching a new trade program, which would include supporting regional trade linkages. USAID has two main objectives through these interventions. First, all three interventions will help ameliorate the impacts of the crisis. Support to SME development will put people to work, and help diversify the economy. Vocational training will also contribute to mitigating the impacts of job losses. USAID may support other donor efforts – such as the World Bank loan of \$50 million for SME loans – by supporting lending to entrepreneurs through both its new access to finance program and through its new trade program. Second, regional linkages will help mitigate Armenia's isolation and link Armenia more fully into the region, creating new opportunities for trade and contributing to a reduction in tensions in the region.

On the micro-level, USAID will introduce two new projects aimed at short- and medium-term results: 1) Small-scale infrastructure and community self-help GDA supported by an

implementing partner, the local private sector and Armenian Diaspora, to assist vulnerable communities and rural villages by carrying out public works projects that will rehabilitate prioritized infrastructure, while providing short-term employment. 2) Strengthen the capacity of the Armenian Vocational Education and Training System by providing assistance in identifying labor market gaps, developing short-term vocational training curricula, and providing job placement services. Assistance will leverage support from existing UNDP, EU and Anushavan Abrahamyan Educational Fund (AAEF) projects.