USAID | ARMENIA
FROM THE AMERICAN PEOPLE

Country Development Cooperation Strategy FY 2013-2017

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Contents

Executive Summary iii
Section 1: Host Country Strategic Context 1
Economic Growth ~ Findings of Assessments 2
Democracy and Governance ~ Findings of Assessments 6
Health ~ Findings of Assessments 11
Cross-Cutting Issues 13
U.S. Foreign Policy Interests and USG Goals & Priorities 15
Host Country Priorities 17
Donor Landscape 17
Opportunities 18
Section 2: Strategic Approach & Development Hypothesis 22
Goal and Development Objectives 22
Strategic Focus and Prioritization 24
Critical Overarching Assumptions and Risks 26
Results Framework Chart 27
Section 3: Results Framework Narratives 28
Development Objective 1: More inclusive and sustainable economic growth 28
Development Objective 2: More participatory, effective and accountable governance 35
Special Objective: Quality and utilization of selected healthcare services improved in priority areas ..41
Cross-Cutting Priorities 45
Coordination with USG Interagency, Donors & Host Country 47
Advancing USAID Forward 47
Section 4: Monitoring, Evaluation and Learning 48
Impact Evaluations Plans and Priority Questions 49
Section 5: Appendices 1
Appendix A: References 1
Appendix B: Illustrative Indicators 5
Appendix C: Key Donors and Input from CDCS Consultations 11
Appendix D: Summary of Assessment Findings and Recommendations 13
Appendix E: UPDATE OF USAID/ARMENIA 2010 GENDER ASSESSMENT 1
Appendix F: Highlights of MCP Gap Analysis 9
Appendix G: Highlights from 20 Years of Partnership 11

EXECUTIVE SUMMARY

Over twenty years on since independence, Armenia in 2013 has demonstrated its resilience and has made strides in its development yet it remains far from ready to "graduate" from assistance. Review of the key indicators of Armenia's economic, democratic and social transition reveals progress, yet a mixed record on reform. Armenia presents a particularly challenging and unique development context because of its geopolitical constraints and unresolved conflict with Azerbaijan, its energy dependency, the influence of an engaged and diverse Diaspora, Russia's dominance in major sectors, and the small size and population dynamics of the country. The result is a small, close-knit society where Western ideas compete with an Eastern legacy and where:

- A concentration of power among ruling elites constrains economic and political competition and impedes the pace and progress of reform.
- Poverty and unemployment rates have worsened, society is disillusioned, and groups such as the poor, women, youth, rural communities, the elderly and the disabled are marginalized.
- Dynamics such as outmigration and remittances serve as "escape valves" for pressure that would build leading to reform.

In response to these challenges, the Mission has developed a more focused and opportunistic strategy built on extensive evidence-based analysis that is designed to result in a **more engaged, prosperous and well-governed Armenian society**. Our vision for Armenia in 2017 is:

- A country considered one of the World Bank's best *Doing Business* reformers with a competitive and diversified economy that provides productive opportunities for the emergence of a middle class that contributes to the tax base which will fund Armenia's future development.
- A government in which power is more evenly distributed, governance is responsive to citizens' concerns, more democratic governance has taken hold especially at the local level, and the incidence and perception of corruption are declining.
- Media and civil society are more independent and sustainable.
- Poverty, malnutrition and communicable disease are on the decline.

To bring about these results, the Mission will pursue two Development Objectives and one Special Objective:

Development Objective 1 (DO 1): M**ore inclusive and sustainable economic growth**

- USAID will work to increase broad-based economic growth that generates productive employment and promotes equality of opportunity that can be sustained over the long term. To achieve this, the Mission will strengthen a diversified mix of competitive industries and level the playing field for increased competition through improved economic governance. To sustain growth, the Mission will place special emphasis on developing a workforce able to lead competitive industries.

Development Objective 2 (DO 2): **More participatory, effective, and accountable governance**

- Democracy and governance approaches will permeate the entire portfolio. Targeting areas where a consensus for reform has emerged between civil society and the government, the Mission will employ "learning by doing" approaches to reform implementation. The Mission will engage civil society and the media in the front end and the back end of reform as "advocates" and "watchdogs."

The common threads running through both of the proposed Development Objectives are: ***governance*** – the fabric that allows citizens, civil society, and businesses to have a voice, participate in benefits, and hold decision-makers accountable; ***competition*** – an essential element to viable economic and democratic systems in which there is a competition of ideas and political powers within government and corruption-reducing efficiencies are enhanced; and ***"going local" –*** where poverty rates and marginalization are highest and opportunities for more democratic governance are greatest.

USAID/Armenia has a Special Objective for "**quality and utilization of selected healthcare services improved in priority areas**" to track discrete results and effectively phase out assistance to the sector. Consistent with the Global Health Initiative strategy, the Mission will focus resources on leaving legacies of USAID's twenty years of investment and addressing outlying issues in three priority areas: maternal-child health, family planning, and multi-drug resistant tuberculosis.

In line with the principles of USAID Forward and the agency's policy directives, the proposed approach is strategically focused, highly selective in areas of intervention and builds on opportunities and comparative advantages. Where a sector has multiple donors engaging, USAID/Armenia will deploy its resources elsewhere. Where results have clearly been achieved and additional assistance is not likely to advance the development agenda, USAID will re-orient and focus its resources to areas of opportunity. Where there is not strong evidence of domestic leadership or constituency for reform, or where traditional approaches are not progressing, the Mission will engage in a different way so that with a declining budget, lasting results can be achieved and enduring legacies created.

USAID's place is unique among the many donors to Armenia as a source of technical assistance in a variety of sectors as other major donors provide direct budget support. USAID/Armenia is a credible partner that enjoys high prestige and solid working relationships with the GOAM and a diversity of local actors that are critical to sustaining outcomes.

Envisioning the day when Armenia no longer requires assistance and can fund its own development, the Mission designed this strategy to intensify the use of partnerships that have the potential to outlive the Mission's presence and constructively engage the Diaspora. By engaging more directly with the Government of Armenia and local change agents, USAID/Armenia will build local capacity to advocate for, implement and evaluate reform.

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SECTION I: HOST COUNTRY STRATEGIC CONTEXT

Since independence, Armenia has demonstrated resilience in the face of severe economic downturns, natural disaster, conflict and regional isolation. Straddling Europe and Asia, small and land-locked Armenia presents a particularly challenging development context because:

- the country is so constrained geopolitically in terms of closed borders, its relations to the North and South, and its need to balance East and West;
- preceding independence, it suffered a devastating earthquake that killed thousands and destroyed an already fragile infrastructure;
- it was engaged in the Nagorno-Karabakh conflict through 1994 which remains unresolved with sporadic violence along the line of contact;
- it is heavily dependent on an aged nuclear power plant and trade agreements with Iran to meet its energy resource needs;
- of Russia's dominance of the country's energy, transport, defense, and infrastructure sectors;[2]
- of the influence of a very active and diverse Diaspora; and
- of the small size and population dynamics of the country.[3]

With international assistance, the country has made progress in improving health outcomes, developing civil society and enhancing economic growth. However, a review of the key indicators of economic, democratic and social transition reveals a mixed record on reform over the past decade and a notable rise in poverty since 2008.

Armenia Benchmarked Against International Indices

	Stronger:[1]	***Weaker:***
Democracy Governance	- Civil Society - Advocacy - Legislative framework - Internet penetration	- NGO/financial viability - Media - Rule of law - Implementation of laws - Corruption
Economic Reform	- Economic performance (GDP) - Privatization - Regulatory quality - Labor market efficiency - Financial sector	- Export share - Energy security - Non-bank financial reform - Goods to market efficiency - Sophistication/innovation - Paying taxes - Access to finance
Human Capital	- Highly educated population - Under 5 mortality - Life expectancy - Aptitudes for map and science - Environmental health	- GNI per capita PPP - Public expenditures health/ education - MDR TB - Employment/youth unemployment - Poverty - Child malnourishment - Gender equality - High levels of outmigration

Benchmarked against the region, Armenia is more advanced than the twelve-country Eurasian norm in all five development dimensions tracked by USAID/E&E's Monitoring Country Progress

[1] "Stronger" and "weaker" in this table represents Armenia's score or ranking compared to regional norms and within dimensions of indices.

[2] *The Long Goodbye: Waning Russian Influence in the South Caucasus and Central Asia*, Chatham House, 2012.

[3] Armenia has an aging population of 3.1 million that is decreasing in size as outmigration grows and the fertility rate of 1.74 children per woman remains well under the fertility rate required for population replacement.

(MCP).[4] Armenia ranks among Moldova, Ukraine, and Georgia within the region when democratic and economic reform indices are combined. Armenia lags the most in democratic reform, scores moderately well in the human capital dimension and is relatively advanced in the economic sector.

Over the past year, the Mission has conducted extensive analyses and consultations across sectors. USAID/Armenia commissioned an Economic Growth Assessment (EG Assessment) and a Democracy, Human Rights and Governance Assessment (DRG Assessment) to inform analysis and provide recommendations in the two major sectors of the portfolio. The results of the 2010 Demographic and Health Survey, which were published in 2012, informed the Mission's approach to health. Please see Appendix D for a summary of assessment findings and recommendations. The Mission conducted rapid assessments on youth, the potential for public-private partnerships, the donor environment, FAA 118/119 biodiversity analysis and gender. In addition, USAID/Armenia analyzed the results of eleven program evaluations conducted over the past two years. This was complemented by an in-depth sector-by-sector review of other donor activities, programs and strategies to ensure that our proposed activities do not duplicate but rather complement what others are funding.

The Mission Director led consultations on the strategy with the government at the Cabinet level and with key donors. Technical teams engaged and solicited input with relevant counterparts in the Government of Armenia (GOAM) and the USG Interagency on the strategy. Extensive consultations were conducted with traditional partners as well as stakeholders new to USAID - donors, implementing partners, think tanks, journalists, national NGOs, universities, political parties, the private sector, and diaspora groups - in order to gain a diversity of perspectives. In August 2012, the USAID Mission held an all-staff retreat to synthesize and analyze assessment outcomes. These analyses and consultations serve as the basis for the Mission's strategic framework, the salient findings of which are provided in this Section.

Economic Growth ~ Findings of Assessments

USAID's MCP Gap Analysis highlights an uneven record in economic reform and performance. While economic growth as measured by gross domestic product (GDP) has been strong, export competitiveness, employment, gross national income (GNI) per capita, and energy security are all lower than the regional norm. As confirmed by the EG Assessment, the country is not yet on a trajectory of sustainable growth capable of creating productive employment opportunities and reducing the incidence of poverty. Years of double-digit GDP growth were narrowly based and resulted in an uneven and unequal distribution of wealth rather than real improvement in living standards for the majority of the population. The benefits of growth accrued to a small group of elites closely intertwined with politics who control the majority of economic resources.[5] Moreover, widening disparities in wealth and income have led to a serious socioeconomic divide on several levels, most notably between rural and urban areas.

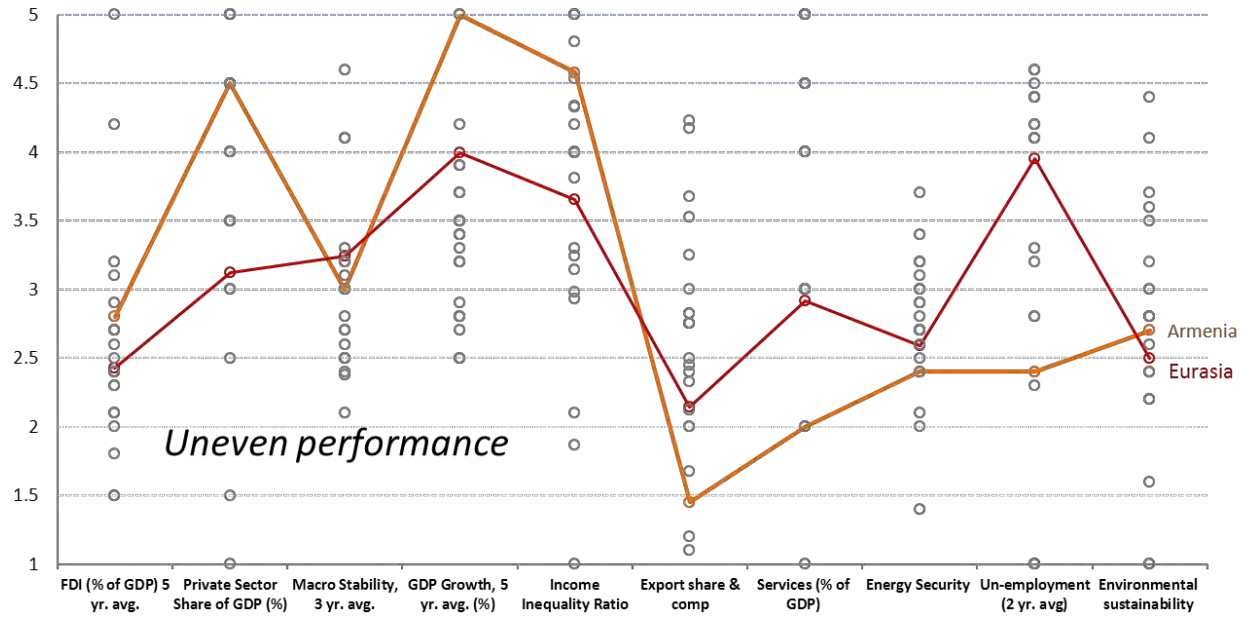
[4] MCP dimensions include: (1) economic reforms; (2) democratic reforms; (3) macroeconomic performance; (4) human capital; and (5) peace and security.

[5] USAID/Armenia Economic Growth Assessment, 2012.

The 2009 economic crisis exposed Armenia's vulnerability: the economy contracted by 14 percent; poverty increased to 35.8 percent; and the debt ratio rose sharply to 56 percent of GDP.[6] This fragility is composed of three elements: first, a high level of dependence on the influx of remittances; second, a narrow reliance on the country's service and construction sectors as the main drivers of economic growth; and third, a closed "oligarchic" economic network centered on several informal commodity-based cartels or semi-monopolies."[7]

Armenia has made a slow yet steady recovery from the crisis.[8] Growth accelerated to over seven percent in 2012, led by mining, agriculture, agro-processing, and services. Inflation remains subdued. Growth is likely to moderate to four or five percent in 2013, reflecting weaknesses globally and in FDI.[9] Overall, the economy remains shallow and concentrated depending primarily on: agriculture and services for employment; mining for exports; and remittances for poverty reduction and liquidity. At 20 percent, unemployment is high with youth unemployment at over double this figure.[10]

Armenia's growth exacerbated regional disparities as wealth accrued to the capital. High poverty rates persist in rural areas and are the highest in secondary towns and cities.[11] Many rural communities have become virtual ghost towns with crumbling Soviet era infrastructure and only a few shops and orchards. Many men have migrated to seek work in Russia and abroad. In a number of towns, only a few women, children and the elderly remain.



[6] Armenia's economy had one of the most significant contractions in output during the crisis in the Europe and Eurasia region.
[7] Bertelsmann Stiftung, *Transformation Index: Arrmenia Country Report, 2012*.
[8] GDP growth rates were 2.2% (2010), 4.7% (2011), with projected rates of 3.6% (2012) and 4.2% (2013). Economist Intelligence Unit, Country Report, August 2012.
[9] IMF Staff Report for the 2012 Article IV Consultation.
[10] *Decent Work Profile*, International Labor Organization, 2012.
[11] World Bank Country Snapshot, 2012.

Business Environment

In 2012-2013, Armenia improved its rank by 18 points to 32nd out of 185 economies in the World Bank's (WB) *Doing Business* rankings. Please see table 2 for details. However, this has not yet translated into substantial increases in foreign direct investment or business activity.[12] The business climate remains challenging, especially for small to medium enterprises (SMEs) not affiliated with the ruling elite. According to the EG Assessment, businesses consulted identified tax reform and administration, customs, and unfair competition as the top three constraints to growth. Anti-competitive practices stifle growth and innovation among SMEs creating an uneven playing field for business. This environment along with corruption perpetuates inequalities, deters more fundamental reform, contributes to a large informal economy and impedes investment.[13]

Table 2: 2013 WB's DOING BUSINESS

Overall Rank	**32/185**
Starting a business	11
Dealing with construction permits	46
Registering property	4
Getting credit	40
Getting electricity	101
Protecting investors	25
Paying taxes	108
Trading across borders	107
Enforcing contracts	91
Resolving insolvency	63

Financial Sector

While Armenia's financial sector is stable, it remains small, risk-averse and unsophisticated by regional and international standards.[14] Access to finance is one of the biggest constraints enterprises cite in annual surveys.[15] Although financial intermediation has deepened since 2009 due to efforts of the Central Bank with the support of the IMF and USAID, the ratio of lending as a percentage of GDP remains quite small by international standards.[16] According to a financial review completed in mid-2011, Armenia scored "0" in all market sophistication categories used in the benchmarking methodology.[17]

Foreign Direct Investment

An important indicator of the business environment is foreign direct investment (FDI). Armenia's FDI is moderate compared to similar countries and concentrated in infrastructure. In 2011, net FDI totaled $446.6 million declining from a high in 2008 of almost twice that level.[18] Russia, France, Canada, Germany and the United States are the biggest sources of FDI. The mining sector (35%) is the largest recipient of FDI, followed by telecommunications (22%) and energy (9%). The GOAM has worked to increase FDI over the past few years, but Armenia's small market size, contradictory laws and regulations, lack of dispute resolution mechanisms, corruption, and transportation issues are serious constraints. FDI is seen as crucial for bringing in new technologies, expanding access to new markets, and creating employment.

Tax and Customs

[12] The greatest improvement was made in the "paying taxes" indicator (108th compared to 152nd in 2012) although it remains the weakest indicator along with "trading across borders."
[13] *Strategic Plan,* European Bank for Reconstruction and Development, 2012.
[14] *Financial Sector Benchmarking*, Partners for Financial Stability, USAID, 2012.
[15] Global Competitiveness Rankings, World Economic Forum, 2011.
[16] Lending as a percentage of GDP has grown from 10 percent in 2006 to 34 percent in 2011. EG Assessment 2012.
[17] USAID- Armenia Financial Sector Overview, Partners for Financial Stability, 2011.
[18] FDI in 2008 was USD 925,224. USAID Economic Analysis and Data Services.

Official statistics put tax revenues at 18.2 percent of GDP.[19] About half of government tax revenue comes from the VAT, with business and personal income taxes adding another 30 percent. Most of the rest comes from social contributions for retirement. Import duties account for only about 5 percent of total tax revenues.[20] VAT collection is viewed by businessmen as arbitrary, with little recourse to decisions made. The GOAM has made efforts to reform tax administration, including electronic filing and consistent VAT reimbursement. Maintaining gains in revenue based on sound tax policies and fair tax administration is critical to decreasing the deficit and increasing expenditures on health, education and infrastructure. In customs, businesses complain of procedural bureaucracy, the need to make extensive small payments to expedite exports and corruption in imports – particularly the use of reference prices and other arbitrary valuation methods.

Energy and Water Resources

Sufficient energy and water resources are critical to a strong enabling environment to improve competitiveness resulting in sustainable economic growth. Armenia faces challenges in sourcing and managing both its energy and water. Armenia is among the most dependent on energy imports relative to usage in the E&E region with its energy efficiency below the global average.[21] The primary drivers of Armenia's energy insecurity are: price increases of natural gas imports; weak diversification in terms of source and supplier; and substantial risks associated with the aging nuclear power plant that generates almost half of the country's electricity. According to Yale University's *2012 Environmental Performance Index*, 70 percent of Armenia is under water stress. The country lacks a systematic approach to water resource management, which is critical to addressing scarcity.[22]

Competitiveness

Armenia's economy has become increasingly competitive over the past four years registering improved rankings in the World Economic Forum's *Global Competitiveness Rankings (GCR)*. Armenia has improved its ranking by 16 points from 2009-2012 to 92nd out of 142 economies.[23] Among Armenia's strengths are its highly educated population, infrastructure, and labor policy, while its lowest scores are in innovation and sophistication along with notably low scores in "goods to market efficiency" and "market size."

Exports and Key Sectors

Armenia's exports are low as a share of GDP, highly concentrated, and resource intensive. The export/GDP ratio was only 20.6 percent in 2010, and has fallen continuously since its peak of 32.2 percent in 2003.[24] Given its narrow base, the economy is vulnerable to market fluctuations and there is limited potential for generating employment or domestic value-added. Based on rigorous sector analysis, hospitality, high technology, pharmaceuticals, and food processing were identified as the sectors with the greatest potential for strengthening competitiveness and increasing exports.[25] Building on this analysis, the EG Assessment identified

[19] IMF Country Report 13/238, Armenia: Sixth Review under the EFF and ECF (June, 2013).
[20] The small share of customs revenues correlates with complaints from businesses about corruption. EG Assessment, 2012.
[21] *Monitoring Country Progress* Gap Analysis, USAID, 2012.
[22] Environmental Protection Index, Yale University 2012.
[23] For 2011-2012, Armenia scored 3.9 with a rank of 92nd out of 142 economies.
[24] According to the EG Assessment, Armenia's export share is small. An export/GDP ratio of 40-50 percent is more typical of such small economies, and in general, higher ratios translate into more competitive and dynamic economies.
[25] USAID/Armenia 2012 "Qualitative and Quantitative Analysis in the Selection of Value Chains for the EDMC Project"

agriculture and processed foods/beverages as the key sectors which had the greatest potential for generating more inclusive growth.[26] Employing 45 percent of the population, albeit with low productivity, agriculture and rural development are vital components of inclusive economic growth.

TRADE

Transport is among the top constraints limiting increased competitiveness. With multiple closed borders, land transportation is costly. The civil aviation sector is hampered by poor management, regulatory issues, and corruption resulting in high prices and poor service at Zvartnots Airport in Yerevan, an important international border that is completely under the GOAM's control. Armenia's economy remains heavily reliant on the Russian economy. Russia is the source of 90% of remittances and remains Armenia's largest trading partner on a country by country basis. EU as a whole is Armenia's largest trading partner. In 2013, Armenia will sign a Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union (EU). The largest payoff of a DCFTA would be liberalization of the air transport sector though other service sectors would also benefit from movement toward meeting EU standards.[27]

WORKFORCE

Armenia's highly educated workforce is one of its comparative advantages.[28] With a literacy rate of 99+ percent and strong aptitudes for mathematics and science, Armenia's workforce has the potential to be the cornerstone of a highly competitive economy. However, there are strong Soviet legacies within the education system. Young people are not sufficiently geared toward current market needs. As a result, Armenia's human resources are not positioned to be a driving force for economic growth. According to industry leaders, there is a scarcity of workers with specialized technical skills. For example, according to the Union for Information Technology Enterprises (UITE) 1,500 young people graduate from state and private universities with technological diplomas, but only 20 percent of them are fit for working at appropriate companies. Furthermore, there are limited attractive employment opportunities for the growing numbers of university graduates, so education is no guarantee of a good job, hence the high unemployment rate among youth. It is well-documented that many of the most capable and ambitious younger workers have emigrated, creating a serious brain drain from the economy.[29]

DEMOCRACY AND GOVERNANCE ~ FINDINGS OF ASSESSMENTS

Consistent with worldwide trends as noted in Foreign Policy's *One Step Forward Two Steps Back* article dated March 2013, democratic reform in Armenia has regressed.[30] According to Freedom House's *Nations in Transit*, most of the seven dimensions tracked have declined from

[26] Sectors were scored in each criterion using a scale of 1 to 3 with double weighting given to the potential for economic growth and employment generation for a total of 24 possible points. For full analysis, see EG Assessment, 2012.

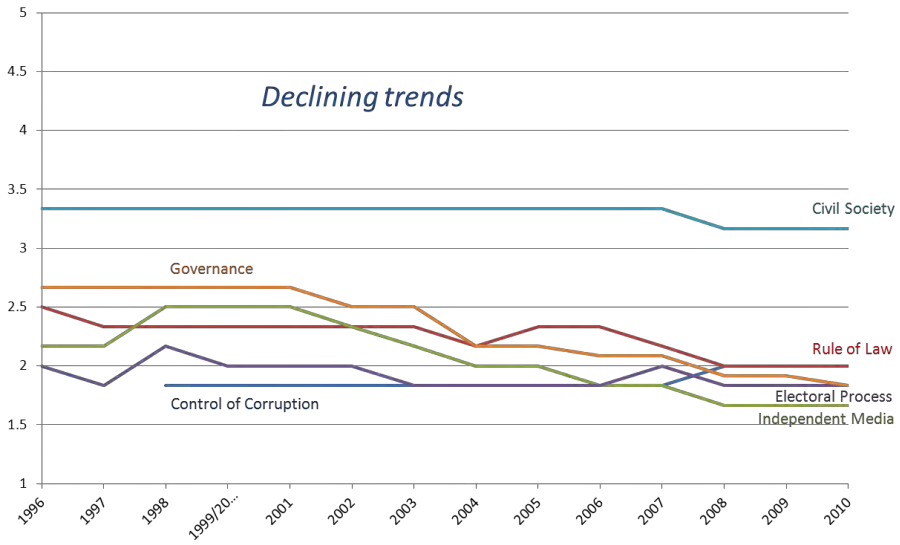
[27] Jensen, J. and D.G. Tarr, "Deep Trade Options for Armenia: The Importance of Services, Trade Facilitation, and Standards Liberalization," *Economics: The Open-Access, Open-Assessment E-Journal,* Vol. 6, 2012-1.

[28] However, this comparative advantage is diminishing due to the low levels of public expenditure on education and with an aging faculty.

[29] EG Assessment, 2012.

[30] Armenia has regressed in democratic reform since 1996, the first year Freedom House began tracking reforms.

2000, as illustrated in the graph below.[31] The slow progress has prompted questions regarding the government's political will for democratic reform.



According to USAID/Armenia's Democracy, Human Rights, and Governance (DRG Assessment) Assessment, *the key challenge is the lack of genuine checks and balances in the system compounded by a powerful executive that systematically undermines nascent institutions and agents of democratic accountability. The centralization of power leads to serious deficits in the consistent application of the rule of law and citizens' meaningful participation in political processes.*[32] The centralization is in evidence both laterally across national government and vertically between central and local government. Contributing to the overall challenge, agents of accountability, including the citizenry, civic actors, and the media, are weak and do not constitute an effective counterweight to executive power.

Democratic Agents

Citizenry

According to a national think tank, the ten wealthiest people control more than 55 percent of the total wealth in the country and the Gini coefficient for consumption increased by ten percent from 2008-2010.[33] Disillusioned with growing disparities in wealth and marginalized by the centralized and opaque political system, citizens have very low levels of trust in government institutions. In the absence of opportunities for more meaningful political engagement, civic apathy runs high and civic engagement is weak. The fact that 69 percent of citizens view the government as a "parent" versus a "client" indicates the citizenry's weak commitment to holding government accountable and high expectations that the government should provide for its citizens.[34] According to Caucasus Barometer surveys, a clear majority of Armenians do not consider the existing regime to be democratic. While most Armenians state a belief in democracy as the preferred political system, further analysis of data reveals that citizens' expectations for democracy are strongly associated with a higher level of economic development and better social protection. As a result, protection of economic and social rights and security take priority over political and civic freedoms.

[31] The exception is the "control of corruption" dimension which improved slightly in 2007 from being the weakest dimension.
[32] USAID/Armenia DRG Assessment, Tetratech, 2012.
[33] *Armenia 2011: Without Illusions*, The Civilitas Foundation, 2012.
[34] *Caucasus Barometer*, Caucasus Research and Resource Center, 2012.

NON-GOVERNMENTAL ORGANIZATIONS (NGOS)

Starting from a very weak base in 1991, there has been a steady growth in the number of NGOs. The sector now consists of around 4,800 registered organizations, though only 15–20 percent are estimated to be active.[35] Although NGOs function with relative ease, the sub-sector faces challenges. In general, NGOs are atomized, heavily donor dependent, and not widely seen as representative of the public interest. These challenges limit the impact of NGOs in society and on democratic processes. As highlighted in the *NGO Sustainability Index*, NGOs face substantial external and internal obstacles to their long-term sustainability. Externally, NGOs grapple with civic apathy, limited and uncertain financial resources, lack of understanding of their role, and an ambiguous and limiting enabling environment. Internally, NGOs lack sufficient skills to manage and grow their organizations, to fundraise and account for financial resources, and to develop constructive partnerships. Only a few have institutional capacity in strategic planning, management, membership outreach, and human resources.

NGOs' dependency on donors has often precluded them from developing expertise in any particular sector.[36] For this reason among others, NGOs' credibility is compromised as they are perceived in the broader public as "grant eaters." Distanced from citizens, NGOs are not adept at aggregating and expressing their interests. NGO presence is limited in rural areas where marginalized populations could benefit most from their representation. NGOs' poor relations with government constrain their ability to play a greater role in governance. However, there are growing examples of successful engagement in which the government realizes the expertise NGOs can bring to enhancing service delivery and policy formulation. For their part, NGOs must acquire more sophisticated skills to play a greater role in policymaking and gain credibility as counterparts in planning and implementation.

MEDIA

The media sector, another key agent of accountability, is the weakest dimension in democratic reform tracked in Freedom House's *Nations in Transit*. Broadcast media outlets, which are the dominant sources of information for citizens, are largely controlled by the government or interests tied to it. During the past decade, the number of licenses given to independent broadcasters has declined. The 2011 licensing competition ahead of the digitization process did not change the situation. The sector suffers from limited resources and a lack of

[35] USAID/Armenia's definition of civil society encompasses the citizenry and the wide array of NGOs that have a presence in public life, expressing the interests and values of their members or others. NGOs in this context are all organizations that are non-governmental across sectors, including political parties, business associations, etc. 2011 NGO Sustainability Index

[36] "Financial viability" is the weakest dimension in the 2010 NGO Sustainability Index.

professionalism.[37] The independence of journalists remains an issue and public trust toward the media has decreased compared to late the 1990s. As a result of these challenges, the competition of ideas and accountability role that media plays within a healthy democratic society is limited. Despite these challenges, media freedom improved this year as did candidates' access to media.[38] A number of opportunities within the sector have emerged which are further detailed in a following sub-section.

GOVERNANCE

Onerous regulations, low human and institutional capacity and inefficient processes hamper government effectiveness and create opportunities for corruption. A system of personal and political patronage contributes to inconsistent enforcement of regulations and inadequate public services. Governance is based on the consensus of elite groups with few mechanisms for civic input to legislative processes and monitoring the progress of reforms.

Spurred by the economic crisis and national elections, the government has made some progress in addressing corruption, improving tax administration, and increasing effectiveness in public administration. Accordingly, at 50-60 percent "government effectiveness" and "regulatory quality" are the strongest indicators within the World Bank's *Governance Matters Indicators.* Although Armenia has established the basic framework for a modern democratic market economy, their sustainability depends on carrying out the next generation of reform.[39] Across all sectors, laws and reforms are often well-developed but poorly implemented.[40] Although there have been nascent improvements in efficiency, mechanisms for accountability and participatory governance on the local and national levels remain weak.

Notwithstanding the current administration's wins in 2012 and 2013 national elections, there is a noticeable level of discontent in the population which translated into nearly 40 percent of votes against the ruling party in the recent Presidential contest. This "protest" vote has sparked considerable discourse regarding the need for reform. The challenge will be to channel the renewed energy of the opposition and the government alike toward constructive dialogue which presumably will shape incentives for accelerating the pace of key reforms. Furthermore, the increased competition among political parties represented in the National Assembly can be seen as an opportunity for greater accountability.

REFORM AREAS:[41] DECENTRALIZATION, GOOD GOVERNANCE, SOCIAL POLICY

- *Decentralization* – With over 900 municipalities, which vary greatly in population size, Armenia faces significant challenges in administering regional development. Tax revenues are insufficient to meet a growing burden on the central budget. Findings of recent project evaluations demonstrate that the local level provides the greatest opportunity for improving competition and civic engagement. Decentralization will also provide the opportunity for better civic representation where marginalization is the greatest.

[37] IREX's 2012 Media Sustainability Index reflects this with the lowest scores being in "business management" and "professional journalism."

[38] Freedom House, *Nations in Transit*, 2013.

[39] Bertelsmann Stiftung, *Transformation Index: Country Report Armenia, 2012*.

[40] Armenia scores strong in its legal framework (86) and very weak in implementation (39) on the 2012 Global Integrity Scorecard.

[41] Although the Mission will employ a DG approach to reform across the portfolio, the Mission has identified these three priority areas as based on extensive analysis and the convergence of GOAM's priorities and society's interest.

- *Good Governance* – As detailed in a sub-section below on corruption, poor governance remains an issue that impedes the efficacy of reform and contributes to civic disengagement. A lack of transparency, weak competition and inefficient government processes perpetuate corruption at all levels.
- *Social Policy*
  - Pension: Old-age poverty is a major issue; the average pension is less than the poverty level. The share of the pensionable age population is steadily increasing while life expectancies are relatively long. Armenia's current pension system is not financially viable. About 72 percent of all social benefits are paid to pensioners, leaving very little for other programs. Public revenues are insufficient to meet the growing demand for benefits under the current system.
  - Disability: Of the nearly 200,000 persons with disabilities only eight percent were employed. Persons with disabilities face social and economic exclusion making them vulnerable to poverty. A person with a disability is more than ten times likely to be unemployed than persons without disabilities.
  - Vulnerable Children: Eighty percent of the 4,900 children residing in Armenia's 50 state institutions have at least one living parent, according to research by UNICEF. At the same time, the National Statistical Service reports that the number of children living in orphanages is increasing. A recent study found that no consensus exists on how to provide special services without institutionalizing children or how to make more flexible services available and reunite families.

Rule of Law

According to the DRG Assessment, rule of law suffers from the lack of an independent judiciary. Although the legal framework is relatively strong, laws are weakly enforced and implemented. Dominated by the Executive branch, courts interpret the law and apply it in an arbitrary manner based on the position and resources of the persons involved, not the rule of law. Despite the substantial international assistance provided, the effectiveness of judicial institutions remains a work in progress. For example, although legislation exists for an independent court budget and a merit-based system for judges, there has been little progress in implementing these measures.

Weak rule of law restricts basic human rights and severely constrains economic development. According to the Caucasus Barometer survey, only 15 percent of respondents agree or strongly agree that the courts treat everyone equally; 80 percent think the courts are under the government's influence; and 69 percent are convinced that high officials often go unpunished when they commit unlawful acts. This correlates with evidence that the courts are among the least trusted institutions.[42] Due to its fundamental importance, multiple donors are engaged in the sub-sector including two USG entities. The European Union is among the largest donors with up to $60 million allocated to the sector to be disbursed on the basis of reforms.

Political Processes and Political Party Competition

The Executive Branch dominates all other branches and political processes. The Legislative Branch has significant powers on paper; however in practice, it is subordinate to the president and the government. This is exacerbated by the fact that the majority of seats are held by the

[42] Data compiled by DRG Assessment using data from the 2010 and 2011 Caucasus Barometer surveys in Armenia.

party of the government. In general, the National Assembly has limited capacity and weak ties with constituents and NGOs. However, the composition of the National Assembly that convened following the 2012 election holds some potential for greater competition and debate along with rules that elevate the role of committees in legislative processes.

Despite relatively high levels of electoral turnout, many Armenians remain skeptical of how free and fair elections are. According to one poll, some 54 percent of those surveyed agree completely or in part that the election administration is politically biased.[43] Amendments have been made to the electoral law, although proper implementation of the legislation remains a problem. As many cited during consultations, "people choose to vote with their feet," alluding to the high levels of outmigration.

The major political parties have weak constituencies and are built around political leaders and patron-client types of relationships. Despite years of international assistance, political parties fall short of carrying out their basic functions of aggregating and articulating civic interests. Youth and women are underrepresented both among the rank and file and in the executive bodies of political parties. As noted in the DRG Assessment, the opportunity to establish political parties with strong grassroots support is limited given citizens' low level of trust in political parties, the dominance of one political party and the economic constraints placed on political activities.[44] Furthermore, most opposition parties have demonstrated minimal will or interest in developing a constituent base outside of Yerevan.

CORRUPTION

According to the MCP analysis, corruption is perceived to be somewhat lower in Armenia than in Eurasia overall, ranking in the 70th percentile globally.[45] The GOAM made some progress in mitigating opportunities for corruption through the simplification of licensing procedures, registration of commercial legal entities, civil service reform, a new criminal code, privatization in the energy sector, and passing anti-corruption laws and regulations. Nonetheless, corruption remains a significant issue. Corruption in public service delivery in particular has an economic cost and contributes to the problem of public disillusionment with democracy. The most recent findings of Transparency International's *Global Corruption Barometer* identified the education sector as the most corrupt, followed by the police and judiciary, and then public officials. Businesses routinely complain about corruption plaguing tax and customs. Institutions established to play a watchdog role in corruption, such as the Ethics Commission for High-Ranking Officials, remain shallow with no enforcement capacity.

HEALTH ~ FINDINGS OF ASSESSMENTS

Human capital development in Armenia is slightly above the Eurasian average, though progress within this broad dimension is uneven according to the MCP Gap Analysis. Armenia is advanced in some health outcomes by Eurasian standards while per capita income is below the norm and public expenditures in health and education are remarkably lower than regional and

[43] Caucasus Barometer 2010, Armenia, online dataset available at http://crrc.ge/oda/.

[44] Consolidation of the party system refers to the dominance of a single party within the political system. DRG Assessment, Tetratech, 2012.

[45] In Transparency International's 2012 Corruption Perception Index (CPI), Armenia scored 34 and is ranked 105-112th among 176 countries on a scale of "100-0", where "100" is the cleanest country and "0" is the most corrupt.

even world standards. Gender inequality is greater in Armenia than the norm for countries in the Eurasia region, based on the UN's Human Development Index.[46]

USAID/Armenia has contributed to improvements in maternal and child health outcomes and primary health care to date; however, challenges remain. Analysis of the Demographic and Health Survey (DHS) and other sector studies pointed up three areas in which health outcomes are poor: maternal and child health; reproductive health; and tuberculosis.

Maternal and Child Health

Maternal and child health indicators continue to be unfavorable and below those of Eastern Europe. The low availability of family planning services leads to heavy reliance on abortion with consequently high secondary infertility. Though difficult to measure, the Maternal Mortality Rate (MMR) is still an important indicator of women's health. In 2011, the official data for maternal mortality in Armenia was 14 per 100,000. Armenia is unlikely to meet its Millennium Development Goal (MDG) target for MMR of 10 per 100,000 live births by 2015. The major causes of maternal deaths in Armenia are hemorrhages, indirect causes associated with pregnancy, pre-clampsia, and infections.

According to the 2010 Armenian Demographic and Health Survey (DHS), over the last five years under-five (U5MR), infant (IMR) and neonatal (NMR) mortality rates have significantly declined. In 2010 the NMR reached a low of eight per 1,000 live births, IMR was 13 per 1,000 live births and U5MR decreased to 16 per 1,000 live births.[47] However, even with this decline, Armenia is not on track to meet Millennium Development Goals (MDG) targets.[48] Moreover, there is some backsliding in IMR: official statistics show a six percent IMR increase over the last four years. Neonatal death accounts for 70 percent of under-five mortality rates. The main causes of neonatal mortality are premature birth, congenital diseases, birth asphyxia, and sepsis/pneumonia.[49] A review of pediatric hospital services in Armenia revealed significant weaknesses in the quality of neonatal care, especially in rural areas.[50] The absence of an institutionalized system of quality assurance and poor adherence to clinical guidelines exacerbates the problem.

Findings of the DHS revealed another worsening child health indicator of malnutrition. Nineteen percent of children under age five are stunted and four percent are wasted or acutely malnourished.[51] Overall, five percent of children under the age of five are underweight (too thin for their age). In a well-nourished population of children it is expected that only slightly more than two percent of children will be stunted or wasted. Stunting is more common in rural (22%) than in urban (17%) areas and among children of less educated mothers (22%) and from poor households (26%). Research shows that children can catch up on weight, but stunting tends to persist. According to UNICEF/Armenia, the main causes of poor nutritional

[46] The index has three dimensions: reproductive health; political empowerment; and labor market participation. By this measure, Armenia is among the seven Eurasian countries which lag considerably behind the rest of E&E in the sample.

[47] Rates in 2005 were 17, 26 and 30 per 1,000 live births, respectively.

[48] For U5MR the MDG target is 8 per 1,000 live births by 2015.

[49] Summary Findings of Updated Situation Analysis. UNICEF Armenia. July 2012.

[50] 2013 – 2015 Strategy on Hospital Pediatric Care Improvement. Maternal and Child Health department. MOH. Dec. 7, 2010.

[51] DHS, 2010. "Stunted" refers to low height-for-age, Also known as chronic malnutrition, this carries long-term developmental risks. "Wasted" refers to low weight-for-height where a child is thin for his/her height but not necessarily short. This carries an immediate increased risk of morbidity and mortality. Wasted children have a 5-20 times higher risk of dying from common diseases like diarrhea or pneumonia than normally nourished children.

status of children are poor weaning and complementary feeding practices coupled with poor surveillance.

Reproductive Health/Family Planning (RH/FP)

Armenia's modern contraceptive prevalence rates are extremely low. While the DHS revealed that the knowledge of contraception is high, only 55% of married women reported the use of contraceptives: 27% were using modern methods and 28% were using traditional methods. The rate of contraceptive use is as low as 10% in some rural areas. Overall, 21 percent of currently married women have an unmet need for family planning which has nearly doubled since 2000. There continues to be a high rate of abortion, which results in myriad complications, including high secondary infertility. Thus, women who would wish to time a pregnancy for later in their reproductive years find they are unable to conceive. According to the DHS, the Total Abortion Rate (TAR) is 0.8 abortions per woman: an encouraging decline from the 2005 DHS rate of 1.8 per woman, yet still very high. Further, prenatal sex selection is common, particularly for the third and fourth child. These births result in about 75% more male than female babies born.[52]

Tuberculosis (TB)

Armenia ranks among the top ten worst countries in the world for multi-drug resistant tuberculosis (MDR-TB), with newly diagnosed cases at 9.4 percent and recurrent cases at 43 percent. According to the 2012 Global Tuberculosis Control report, the estimated incidence of TB is 55 per 100,000 population. The TB case detection rate in Armenia in 2011 was reported as 74 percent, indicating that many cases go undetected or that cases are not referred for confirmatory diagnosis. Drug resistance occurs as a result of incorrect antibiotic treatment and poor patient compliance with prescribed treatments, which has led to Armenia's high treatment default rate (9.7% for the 2008 cohort). As a result, 2010 data show a low treatment success rate of 72 percent, compared to global targets of 85 percent. A series of assessments revealed serious weaknesses in TB management which is contributing to these alarming trends. As Armenia has a high migration rate, the rising prevalence of MDR TB is a major concern.

Cross-Cutting Issues

Gender

According to UNDP's *Global Gender Inequality Index*, Armenia is among the countries in the region lagging in gender equality.[53] Congruent with these findings, Armenia's rank and score has weakened overall since 2007 within the World Economic Forum's *Gender Gap Index*, which provides rankings in the areas of economic participation and opportunity, educational attainment, health and survival, and political empowerment.[54] Declines were mainly due to lower scores in the area of economic participation. Armenia scored the lowest in "estimated earned income" and "women as legislators, senior officials, and managers." In contrast, Armenia scores very high in educational attainment with an almost perfect equality score. Its weakest score is in the area of health and survival due to a very poor score on sex ratio at

[52] Guilmoto, C. "Sex Imbalances at Birth: Trends, Consequences, and Policy Implications," UNFPA, 2012.
[53] MCP Gap Analysis, 2012. Only in Georgia, Tajikistan and Kyrgyzstan is gender inequality greater.
[54] In 2012, Armenia was ranked 92nd out of 135 countries with a score of 0.664 on a scale of 0.0 as inequality and 1.00 as equality.

birth. Scores in the area of political empowerment have improved over time, yet women are still poorly represented in Parliament and high Ministerial positions.

As highlighted in USAID/Armenia's 2010 Gender Assessment, recognition of women's potential to contribute more to development processes has been limited. Despite women playing an active role in political, economic and civic life under the Soviet period, women today are often excluded from full participation in political and economic life. Positive aspects of the Soviet system in relation to gender participation now carry negative associations with limited discussion of their current relevance. Women's participation in the economic sphere remains below regional averages, as reflected in the fact that more than 60 percent of the population feel that men should be the primary breadwinner and have a greater right to jobs than women.[55]

In preparation of the CDCS, USAID/Armenia conducted an updated gender analysis. Many of the findings and recommendations from the 2010 Gender Assessment hold true. Please see Appendix E for the Updated Gender Analysis. However, notable developments include that almost a third of single-headed households are women.[56] This is related to high levels of migrant labor, especially in rural areas. Given the limits on women's economic opportunity, these households are vulnerable to poverty. Another notable development is the 20 percent quota for women's representation in the party lists which came in effect with the newly passed Election Code. The law netted 21 seats for women in the May 2012 elections. However, many of the women, presumably at the instigation of their parties, gave up their positions, which were then taken by men. Hence only 14 women took their seats in the fifth convocation of the National Assembly.[57]

Bio-Diversity

Armenia has great altitudinal variation and a diversity of climatic zones. Together, this has resulted in a diversity of landscapes and ecological systems with distinct flora and fauna, including many regionally endemic, relict, and rare species. While encompassing only six to seven percent of the Caucasus area, nearly all vegetation types found in the southern Caucasus can be found in Armenia. Over the years, several laws have been enacted to protect biodiversity. While there are still some legislative gaps and inconsistencies, much of Armenia's policy framework governing biodiversity conservation is strong. Implementation has, however, been limited. The acceleration of mining in the country is the most significant development in relation to threats. Beyond this, the direct threats to Armenia's biodiversity remain the same since the last assessment conducted in 2009, which are:

- Unsustainable use of resources: unsustainable fuel wood collection and commercial timber harvesting; inappropriate grazing practices; mining, and other industrial and commercial construction/development; and poaching of fish and wildlife;
- Climate change regimes indicate that ecosystems are at great risk of desertification;
- Invasive species are affecting species composition and ecosystem functions; and
- Systems in place are not adequate for protecting ecosystems with significant and threatened biodiversity.

[55] CRRC, "2011 Caucasus Barometer Presentation July 5 2012."
[56] National Statistical Service, 2012.
[57] DRG Assessment, Tetratech, 2012.

Regional

The absence of peaceful relations between Armenia and two of its bordering countries is a destabilizing factor in the Caucasus region. The closed borders with both Turkey and Azerbaijan stymie Armenia's regional integration, impede its economic development, and undermine further progress in democratic reform. While Turkey and Armenia signed Protocols in 2009 to normalize relations, Turkey has refused to ratify them pending progress on Nagorno-Karabakh, which effectively froze its prospects for implementation.

Over the past year, tensions with Azerbaijan have increased due to a number of factors.[58] While the OSCE Minsk Group-facilitated diplomatic talks continue to proceed, little progress has been made as confidence on both sides has eroded.

In this context, Armenia relies heavily on its North-South neighbors, Georgia and Iran. Transit through Georgia is its only option for accessing European trading partners by road. The August 2008 Russia-Georgia conflict, however, exposed the vulnerability of Armenia's critical supply routes through Georgia and the economic repercussions that geopolitical changes in Georgia can have on Armenia. The conflict also highlighted the potential benefits of a border opening with Turkey in terms of alternative and more efficient trade routes and market access.

Armenia maintains cordial relations with Iran and relies on it as an energy trading partner. While careful to comply with all relevant international sanctions, Armenia and Iran are pursuing additional energy projects, including a hydroelectric dam to complement their existing electricity-for-gas swaps. Russia remains Armenia's key ally – as its main security guarantor, the source of 90% of remittances, and its biggest single trading and investment partner. Armenia has not made a decision on whether to strengthen its ties with Russia under the Eurasian Customs Union.

U.S. Foreign Policy Interests and USG Goals & Priorities

As stated in the USG Mission to Armenia's *Integrated Country Strategy (ICS)*, the United States' strategic goal is to help Armenia succeed as a secure, prosperous, and democratic country. In 2012, the U.S. and Armenia celebrated 20 years of diplomatic relations. Over this time, the USG has worked to overcome the challenges that face Armenia as a country in transition. As Armenia progresses in its transition, the U.S.' historically strong and cooperative bilateral relationship is now evolving from one that is based on assistance to one that is grounded in partnership. While direct assistance is focused on critical goals, increasingly the USG is looking to the Armenian government to initiate and implement economic and political reforms. To support and create self-sustaining momentum for reform, the USG is intensifying partnerships with the Armenian people to enable them to participate in the process and engage with their government.

[58] The construction of a new airport in Nagorno-Karabakh.

The Mission's efforts are aligned with the U.S. Department of State's *Joint Regional Strategy for Europe and Eurasia.* Specifically, the USG will strengthen Armenia's ties to the Euro-Atlantic community; support normalization between Turkey and Armenia; and address priorities in human rights, mitigating corruption, strengthening a stable and democratic system that hosts free and fair elections, and supporting poverty reduction through economic growth.

As stated in the Congressional Budget Justification, *U.S. assistance is helping Armenia sustain its development into a stable partner, at peace with its neighbors, where democracy, human rights, and the rule of law are respected, where citizens have access to effective health and social services, and where the benefits of sustained economic growth are widely shared*. Under the U.S. Ambassador's leadership, the USG will enhance options that lessen unhealthy dependence on any one economic partner, pipeline, political party, or news source resulting in increased sovereignty, security, and independence. To help Armenia create these options, the USG will pursue three broad goals as stated in the ICS:

- Goal 1: *Armenia engages with its neighbors to achieve peace and greater regional integration, strengthens its security partnership with the US and NATO, and protects U.S. citizens in Armenia.*
- Goal 2: *Armenia creates a resilient and energy secure economic environment which fosters sustained economic growth and provides increased opportunities for U.S. business and investment.*
- Goal 3: *The GOAM implements a Western-oriented reform program that leads to a more just, pluralistic society with democratic accountability, free and fair elections, and rule of law.*

America will remain the anchor of strong alliances in every corner of the globe; and we will renew those institutions that extend our capacity to manage crisis abroad, for no one has a greater stake in a peaceful world than its most powerful nation. We will support democracy from Asia to Africa; from the Americas to the Middle East, because our interests and our conscience compel us to act on behalf of those who long for freedom. And we must be a source of hope to the poor, the sick, the marginalized, the victims of prejudice - not out of mere charity, but because peace in our time requires the constant advance of those principles that our common creed describes: tolerance and opportunity; human dignity and justice.

- Excerpt from President Obama's Inauguration Speech January 2013

The U.S.-Armenia Joint Economic Task Force, which meets annually, is an important mechanism for orchestrating U.S. foreign policy interests and assistance with the Government of Armenia's (GOAM) priorities.

Civilian-military cooperation in Armenia has been characterized over the past several years by close coordination between the Department of Defense (DoD), the Department of State and USAID. DoD employs a variety of authorities to undertake activities in the civilian realm, and there is potential for synergy between USAID and USG military resources. The monetary value of assistance provided by the Office of Defense Cooperation and State Department defense-related programs is mandated by Congress and fluctuates slightly each year. Over the last 4 years, International Military Education and Training has amounted to around $3.2 million, providing military education and language training for over 100 Officers, NCOs and junior enlisted soldiers. Under the Overseas Humanitarian Disaster Assistance and Civic Action program, nearly $1 million is being provided to communities throughout Armenia.

Host Country Priorities

In 2012, with USAID assistance, the GOAM developed a new national development strategy called the Armenia Development Strategy (ADS) that covers the period of 2012-2025.[59] Replacing the previous Sustainable Development Strategy and serving as the basis for the Medium-Term Expenditure Framework, the ADS is the country's main socioeconomic development strategy. The ADS lays out four priorities:

1. Growth of employment – will be the focus of the first five years, with the aim of creating quality, well-paid jobs;
2. Development of human capital - will enhance the scope, quality and accessibility of primary services (including healthcare, education, culture and primary infrastructure);
3. Improvement of social protection system – will improve the effectiveness of current systems and their financial stability in the long-term, ensuring provision of comprehensive social guarantees, and reducing social risks and poverty; and
4. Institutional modernization of the public administration and governance – will improve the public efficiency, increase resources, improve service quality and accessibility, increase transparency in decision-making, and increase civil society participation in processes.

Within the priorities defined in the ADS, the GOAM has explicitly requested USAID technical assistance to promote export-led growth, tax policy and administration reform, financial intermediation, pension reform, local governance, and e-governance. In consultations on the CDCS, the Prime Minister (PM) Tigran Sargsyan and the Cabinet of Ministers noted that our priorities are aligned on the whole. The PM stressed the importance of programs that support the development of a middle class and made the following points: 1) economic growth and employment generation are high priorities; 2) there is a need for better integration of economic and governance programs; 3) comprehensive programs focused on results make the greatest impact; and 4) a need for enhanced synergies with other donors, notably the EU.

We should think about creating jobs, especially in the former industrial cities. Unemployment is the main cause of emigration. People often come to Yerevan from small towns and not being able to find a good job, go abroad. From this, I think it is important to continue the program of decentralized development of Armenia, and to create favorable conditions for small and medium businesses.

- Excerpt from President Sargsyan's speech, 2012

Donor Landscape

Net overseas development assistance to Armenia has ranged from $200m- $350m/year since 2006. With the 2008 economic crisis, Armenia tripled its levels of borrowing from multilateral institutions to sustain its balance of payments. Based on 2010-2011 averages, the USG was the single largest donor due to the combined assistance provided from USAID, the US Department of Agriculture (USDA) and the Millennium Challenge

2010-2011 Snapshot of Top Ten Donors**

US	$93m
EU	$64m
IMF	$58m
Japan	$46m
WB	$42m
Germany	$31m
ADB	$21m
France	$5m
Global Fund	$5m
IFAD	$5m

[59] USAID supported the GOAM in developing the ADS and is now assisting in the consultation and vetting process before it is presented to the National Assembly.

Corporation (MCC).[60] USAID is unique in the donor landscape as it is the primary donor providing direct technical assistance in contrast to the majority of other donors who provide direct budget support or assist through lending to government institutions. The EU's indicative assistance budgets are increasing and far greater than the combined amounts of all donors' funding. This provides a new and important opportunity for donors to align efforts in order to maximize their leverage with the government in advancing reforms.[61] However, the actual levels of EU assistance provided to date are only a fraction of indicative amounts due to the time lag between program formulation and implementation and the moderate pace of reform. The United Nations (UN) provides a total of $15 million in assistance per year combining all UN agencies' assistance. The roles of key donors and outcomes from consultations are provided in Appendix C.

OPPORTUNITIES

A key feature of the 2013-2017 strategy is to focus on areas where the potential for progress and meaningful change is strongest. Across the portfolio, the Mission will invest its resources in programs that capitalize on opportunities, assets, comparative advantages and emerging positive trends, some of which are detailed below.

ECONOMIC

- The incentive for Armenia to advance the required economic and political reforms in order to receive higher levels of assistance from the European Union and access to European markets.
- Emerging activities and capabilities in information technology and innovation that can serve both as a model and driver of growth in other industries.[62]
- Leading the region, Armenia's mobile phone subscription rate is over 100 percent. Armenians are increasingly accessing the internet via mobile phones which provides opportunities for growth across sectors. The economic benefits of broadband are immense: a 10 percent increase in penetration can add a full percentage point to sustainable GDP growth. Moreover, mobile commerce has enormous potential to improve social and financial inclusion.[63]
- A highly educated workforce with a high aptitude for math and science.[64]
- A natural resource base that offers potential for growth in agriculture and mining.
- A stable and competitive banking sector that can expand its contribution to industry development and capital formation.
- Increased potential for regional integration with Georgia in energy and trade.
- The GOAM's commitment to economic reform as reflected in nascent progress made in strengthening the regulatory environment and streamlining tax administration.
- The GOAM's priority to strengthen regional development.

[60] **Data in the "Snapshot of Donors" textbox is from OECD-DAC, World Bank; www.oecd.org/dac/stats; amounts are based on averages for 2010-2011.

[61] Armenia could benefit from approximately $250 million of assistance from the EU for 2011-2013 if required reforms were fully implemented within the context of Association Agreements.

[62] The IT sector grew 27% per annum over the last 14 years. The sector has an increasing number of firms (350 in 2012) employing up to 7,000. Council on IT Development, USAID Economic Growth Assessment, 2012.

[63] Vestberg, H. "Networked Development" www.project-syndicate.org, March 2013.

[64] EG Assessment, 2012.

- There are emerging signs of dynamism in new sectors with a ten-fold rise in the export of fruits and nuts and rise to $32 million in cereals and milk from almost nothing in 2011.

Civil Society and Governance

- Commonly shared priorities with the GOAM and strong working relationships with Ministerial counterparts.
- The government administration's mandate and five-year timeframe to address reforms upon being re-elected.
- The GOAM's stated commitments to reform priorities, requests for assistance and increasing receptiveness to civic input.
- High-level political will for local governance reform coinciding with evidence on the ground that principles of democratic governance are taking hold.
- The presence and political dominance of many younger "technocrats" in senior government positions, many of whom have been Western-educated and who hold promise for embracing new approaches in governance.[65]
- The newly composed National Assembly with increased diversity of party and gender that has the potential to foster more debate and greater political competition.
- An increasing role for civil society in advocacy and policy formulation.
- A relatively favorable NGO enabling environment in which civil society is able to effectively operate.
- Amendments made to the electoral law that mandate increased gender representation in public life.

Highlights of Progress to Date

- Improved competitiveness of key sectors resulting in total sales of $344 million and 11,000 jobs; contributing to 16pt-improved ranking in *2012 Global Competitiveness Rankings*
- 18-pt improvement to 32nd in ranking on World Bank's *2013 Doing Business*
- Increased capacity of civil society increasingly successful in advocacy and policy support; as reflected in improved "advocacy" score within the 2010 NGO Sustainability Index
- Established legal framework for sustainable pension system adopted by GOAM
- Reduction by 50% of out-of-pocket payments for health services
- Introduced gender issues into public discourse;
- Pioneered 8 innovative GDAs that leveraged $11 million in cash and 20+ PPPs leveraging $50+ million

- A well-educated and increasingly connected population to push for and monitor the benefits of reform.[66]
- The rapidly increasing level of internet penetration and its impact on media. The increase in online news as a source of information is prompting traditional media to cover a wider range of issues.[67]
- The growing cluster of new opinion makers and activists and growing use of social media to advance independent causes, civic initiatives and a competition of ideas.[68]
- Increased diversity in media as it has become easier to register a media company and accredit journalists.

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[65] *Armenia: An Opportunity for Statesmanship*, International Crisis Group, 2012.

[66] Armenia's internet penetration increased from 6-37% between 2008-2010, making it one of the fastest growing countries in ICT usage in the world and leader in the region. ITU.

[67] There are now more than 200 online news portals. USAID, Media Sustainability Index, 2012.

[68] Facebook, which has over 500,000 users in Armenia, has become an increasingly popular tool for mobilizing civic campaigns, some of which have been successful in overturning government decisions on certain issues.

Health

- The GOAM's efforts to diversify health financing with plans to expand health insurance coverage and the introduction of co-payment and earmarked taxation.
- Prioritization of improved access to and quality of reproductive health services in the 2013 Presidential campaign.

In addition, USAID identified two broad cross-cutting issues that have the potential for making transformational impact: 1) **innovation and technology** as means to reduce Armenia's isolation, overcome border constraints, expand economic opportunities and engage citizenry; and 2) **youth** as drivers of change, future leaders within society and entrepreneurs within the workforce. USAID will pay special attention to addressing and cultivating these issues in the design and implementation of programs to maximize results.

Public Private Partnerships and the Diaspora

Important opportunities exist for forging strategic partnerships and engaging the Armenian Diaspora. USAID/Armenia has extensive experience and expertise in public-private partnerships (PPPs) and Global Development Alliances (GDAs) in a range of areas including: healthcare, education, workforce development, regional recovery, and vulnerable populations. Partnerships have been and will continue to be an important part of USAID/Armenia's strategies. Through partnerships, the USAID has engaged with a diversity of international and local partners including multinational companies, philanthropists, NGOs, foundations, and the Diaspora.

The Armenian Eyecare Project

USAID successfully engaged with Diaspora organizations and leveraged 1.6 ratio in resources, scaling-up its interventions and delivering results. Since inception, the AECP doctors examined 245,000 people across Armenia, and provided laser surgery to nearly 10,000 people in its Mobile Eye Hospital. The project trained over 2,000 regional ophthalmologists in eye diseases, and helped establish three education and diagnostics centers. Recently, the project launched the first program in the region for Screening and Treatment of Retinopathy in Premature Children.

The USAID Mission Director and the U.S. Ambassador have designated *partnerships* as a priority. Through partnerships, the Mission expects to leverage funds, bring new expertise and technologies, and introduce third-party ownership of activities. The Mission views partnership as a strategic means to building a legacy and ensuring the sustainability of our 20-year investment in some sectors. The Mission is using the CDCS as an opportunity to refine its approach to partnerships. This entails defining strategic areas in which the Mission will actively pursue partnerships and reaching out to new resource partners such as local and international businesses to increase matching investments in development. Strategic areas identified for partnership include:

Armenian National Engineering Laboratory

In 2012, USAID formed a GDA alliance with National Instruments, Enterprise Incubator Foundation, and the State Engineering University of Armenia to establish an Armenian National Engineering Lab to offer engineering certification courses, upgrade scientific research and deliver customized engineering solutions to industry.

- **Economic Growth**: Agriculture, workforce development (university linkages, vocational training), food/beverage processing, machinery and instruments, tourism, information technology, engineering, chemicals and pharmaceuticals, and rule of law as it relates to trade and investment.

- **Health and Social**: University linkages on medical education, telemedicine, maternal and child health, nutrition, family planning, and multi-drug resistant tuberculosis, de-institutionalization of children and mainstreaming of disabled children.

Among Armenia's most unique opportunities is the extensive and growing network of Armenians living outside of the country, many of whom currently provide significant remittances and could be tapped for trade and investment opportunities. The Diaspora has demonstrated a high level of interest in a broad range of issues related to Armenia as evidenced during the U.S. Ambassador's latest Diaspora tour. Armenian-Americans play an important role in the development of Armenia. To ensure the Diaspora understand the strategic direction of U.S. assistance, the USG will make outreach an important priority. The USG will continue the tradition of annual Diaspora tours in Armenian-American communities.

SECTION 2: STRATEGIC APPROACH & DEVELOPMENT HYPOTHESIS

GOAL AND DEVELOPMENT OBJECTIVES

The Mission's Country Development Cooperation Strategy (CDCS) is designed to address the fundamental challenge confirmed by both sector assessments and consultations: *the concentration of power and resources among a small group of ruling elites.* USAID/Armenia proposes a highly integrated strategy for placing Armenia on a trajectory for sustainable development that will generate substantial economic opportunities and accelerate the pace and progress of reforms responsive to an engaged citizenry. This requires refocusing our results in economic growth to be more inclusive and sustainable, taking a new, more collaborative and holistic approach to democracy and governance programming that provides for stronger social policy, and effectively sustaining the investments made in health while phasing out assistance to the sector.

Strategic analysis of assessments and comprehensive consultations point to a clear goal supported by two Development Objectives and one Special Objective:

Goal: *A more engaged, prosperous, and well-governed Armenian society.*

The goal is founded on the principle that increased economic growth and improved governance should benefit citizens who have an important role to play in the country's development. A more prosperous society is one in which economic opportunities are created and expanded while access to these opportunities is broadened so that more members of society can participate in and benefit from economic growth. An informed, interested and enterprising citizenry play an integral role in achieving greater prosperity and better governance.[69] A well-governed Armenia is one in which government is more responsive to citizens in advancing meaningful reforms in a participatory manner. Supporting this goal are two Development Objectives:

- Development Objective 1 (DO 1): **More inclusive and sustainable economic growth**

  To achieve the goal, USAID will work to increase economic growth that generates productive employment and promotes equality of opportunity through a diversified mix of competitive industries. The Mission will enhance the *sustainability* of economic growth, which entails resilience in global markets, effective policies for enabling growth and the strategic use of resources, and a business climate conducive for investment and the participation of small to medium enterprises who can lead innovation. The Mission will place special emphasis on developing a workforce able to enter and lead competitive industries.

- Development Objective 2 (DO 2): **More participatory, effective, and accountable governance**

  USAID will improve governance through a "learning by doing" approach to democratic processes. Checks and balances will be instilled in the participatory process in pursuit of

[69] For the purposes of the CDCS, "engaged citizenry" is defined as the individual and collective actions taken to address issues of public interest.

mutually shared aims. Specifically, USAID will deliberately engage to strengthen key institutions, such as the National Assembly and local governments, to counterbalance the power of the Executive branch. Targeting reform areas where there is political will, USAID/Armenia will work with the GOAM to make governance more transparent, participatory and responsive to citizens. The Mission will engage civil society at the front end and back end of reform as advocates and watchdogs. At the same time, the Mission will build civil society's capacity to more productively engage policymaking and reform implementation. Through this collaborative approach, civil society will gain a sense of accomplishment as reforms progress, transparency increases and efficiencies are gained; while the government will gain valuable input, legitimacy, and support in realizing reforms while mitigating corruption.

The following are common threads running through both of the proposed Development Objectives: ***governance*** – the fabric that allows citizens, civil society, and businesses to have a voice, participate in benefits, and hold decision-makers accountable; ***competition*** – an essential element in which there is a competition of ideas and political powers within government as well as competition within the economy; and ***"going local" –*** where poverty rates and marginalization are highest and opportunities for more democratic governance are greatest.

The Development Objectives are necessary for achieving the goal but not sufficient. The GOAM's political will for reform and improved governance is crucial. The GOAM has officially expressed its desire to boost Armenia's competitiveness by improving its business climate and export potential. In addition, it has made a number of national and international commitments to principles such as open government and decentralization.

Vision for Armenia in 2017

- Armenia is considered one of the World Bank's best *Doing Business* reformers with a competitive and diversified economy that provides opportunities for the emergence of a middle class.
- Power is more evenly distributed throughout the government.
- The government is more responsive to citizens' concerns, especially at the local level.
- The incidence and perception of corruption declines.
- Media and civil society are independent and sustainable.
- Social policy protects the very young and the very old; women, youth and the disabled have a voice.
- Poverty, malnutrition and communicable disease are on the decline.

- Special Objective (SPO): **Quality and utilization of selected healthcare services improved in priority areas**

  USAID/Armenia's strategy for health is designed to capitalize on partnerships and commitments made, address outlying issues in three priority areas, and phase out while preserving the legacies and improved outcomes of USAID's twenty years of assistance. With a focus on sustainability and host-country ownership, USAID will support achieving mutually desired health outcomes in priority areas of maternal and child health, reproductive health, and tuberculosis. The Mission will build the capacity of key GOAM institutions, such as Ministry of Health, State Health Agency, and National Institute of Health, to improve legislation, policies, and operational rules for effective planning and management of resources to deliver high quality health services to population. The Mission will engage civil society organizations in advancing health care standards, raising awareness of health issues and encouraging

citizens to seek healthcare services. USAID will create functional partnerships among GOAM, civil society, and donors to strengthen collaboration, streamline assistance, and leverage additional resources.

USAID/Armenia proposes a distinct Special Objective for health for four reasons: (1) assistance will close out before the end of the strategy period;[70] (2) there are sufficient resources to consolidate USAID achievements in the sector and "mop up" in several focused areas where the health indicators point up disturbing epidemiological trends;[71] (3) the expected outcomes under the objective are specific to the Global Health Initiative strategy and distinct from the rest of the portfolio; and (4) extracting health from the Results Framework would send the wrong signal to the stakeholders and government counterparts we are working with to achieve lasting results.

Gender equality is mainstreamed across the CDCS Results Framework. The Mission's approach will be gender sensitive and designed to capitalize on the important and integral role gender plays in achieving the Mission's objectives.

Strategic Focus and Prioritization

USAID/Armenia's proposed approach is both strategic and opportunistic. In identifying the Development Objectives and Intermediate Results, USAID/Armenia employed a triangulation method:

1. Using internationally-accepted indicators from a variety of sources as well as a combination of sector assessments and evaluations of ongoing programs, the Mission identified those sectors and sub-sectors where Armenia has come short of fully implementing reforms;
2. Through extensive consultations with counterparts, the private sector, citizens, NGOs, and other donors, the Mission identified the areas where the host country and international donor partners believe the USG could most usefully intervene; and
3. Based on assessments and consultations, the Mission determined areas where there is the greatest potential for change including identifying key reform champions and partners.

This triangulation of analysis is fundamental to how the Mission proposes to focus and concentrate the portfolio in keeping with the Administrator's vision to manage for and report on results. Where a sector has multiple donors engaging, such as rule of law, USAID will not intervene except to provide intellectual leadership based on its lessons learned. Where results have been achieved and additional work will not likely move the development agenda forward, such as elections and political party support, USAID will redeploy its resources to more critical areas of need. Finally, where there is little domestic will or constituency for reform, the Mission intends to engage in a different way in order to maximize the potential for impact and results. This is critical to leaving legacies in the time that USAID has left in Armenia.

As a result, the CDCS represents a narrower and more strategic focus than the previous strategies. The Mission carefully set the parameters of the proposed strategy to be within its manageable interests. The Results Framework reflects hard choices in focusing the portfolio. USAID/Armenia integrated social transition into governance. The Mission is maintaining a

[70] Funding for health is secured through FY2013.
[71] Including FY13's obligation – which is the last – USAID has $9.3 million allocated to health for programs.

focused SPO for health to facilitate phasing it out within the strategy period.[72] The new strategy condenses within DOs down to two IRs, streamlines sub-IRs under the objectives, and reflects phasing out assistance to health within the strategy period.

Ultimately, given declining budget levels and the importance of working toward an Armenia that does not require assistance; the Mission is using the strategy as an opportunity to begin institutionalizing *now*. The Mission will create *legacies* across the portfolio, and intensify the use of partnerships that constructively engage the Diaspora and have the potential to outlive our presence. The approach involves engaging the GOAM and local agents of change more directly, such as NGOs and/or the private sector.

Among the DOs, the Mission has strategically placed the economic DO first as it is seen as the means and foundation by which results will be achieved across the portfolio. This approach correlates with the GOAM's priorities and aligns with theories of change underlying the strategy. Armenia's development context is unique in having a clear challenge that impedes reform across all sectors – democratic, economic, social and health. The Mission's theory of change is based in part on theories presented in Deron Acemoglu and James Robinson's book, *Why Nations Fail*, in which Armenia is included among those countries classified as having extractive institutions.[73] The book posits that countries plagued with extractive economies will preclude the creative destruction essential for sustained economic growth and development. In this context, ruling institutions prevent innovation in order to maintain control over polities. In order to break-out of this negative trend, countries have taken several paths. However, as noted in the EG Assessment, the most plausible path for Armenia would be one in which elites allow for broadening of the economy which could give way to more inclusive coalitions and set the country on more virtuous cycles of growth and increased prosperity.

The Mission's theory of change underlying our approach to democracy and governance draws upon David Korten's learning process approach to development, Jean-Paul Faguet and Karen Ruffing-Mangelsdorf's work on decentralization and Mitchell Seligson's work in Latin America that demonstrates positive correlations between citizen engagement at the local level with support for the democratic system overall. Thus, the Mission's strategy is focused on inclusive growth supported by participatory and accountable governance.

Finally, the Mission's strategy is undergirded by survey research in Armenia detailed in the previous sub-section on citizenry that reveals Armenians associate democracy with access to employment and a social safety net. Hence, labor-intensive economic growth and social protection for vulnerable groups, including the very young and the very old, are key areas for reform.

[72] Maintaining a SPO for health signals an important message to stakeholders and the Ministry of Health at a critical time in which USAID is working with them to concentrate resources.

[73] Acemoglu, D. and Robinson, J. *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, 2012.

Critical Overarching Assumptions and Risks

Assumptions:

- No major changes in relation to the unresolved conflict over Nagorno-Karabakh and its associated ramifications (closed borders with Turkey)
- Continued government stability enables cooperation with USG
- No major deleterious changes in GOAM priorities and policies and the officials who are charged with upholding them
- No major changes in the political system
- The Russian economy, on which Armenia is dependent, has stable growth
- The EU remains a key donor
- Armenia maintains a balance in its foreign policy orientation
- The economy continues to recover
- Armenia's energy challenges remain
- Trends in internal migration to urban areas and outmigration continue
- Incentives for investment continue to grow - especially public, but also private
- Strong Diaspora interest in USG programs, while their development activities and investments grow
- The USG's bilateral relationship with Armenia remains favorable and the GOAM remains receptive to USG assistance
- The USG has sufficient resources to implement the strategy with the ability to leverage external resources
- There is sufficient absorptive and technical capacity among local partners to effectively fund them directly as implementing partners[74]

Risks:

- Mounting tensions with Azerbaijan lead to a resumption of conflict
- Political instability or decreased commitment to reform
- Conflict between major world powers and Iran which would have implications on Armenia's geopolitical stability
- An energy crisis emerges
- Instability in Georgia threatens Armenia's transport corridor and access to energy

Given the long and troubled history of the Caucasus region, the dangers of political instability are not trivial. The Mission is prepared to undertake a robust program of monitoring and adjusting focus over the life of the strategy to deal with shifts in the political, social and economic landscape.

[74] The Mission considers this a critical assumption at the strategic level because the CDCS represents a dramatic shift in empowering local organizations across the portfolio to lead implementation and serve as the "prime" for assistance.

Results Framework Chart

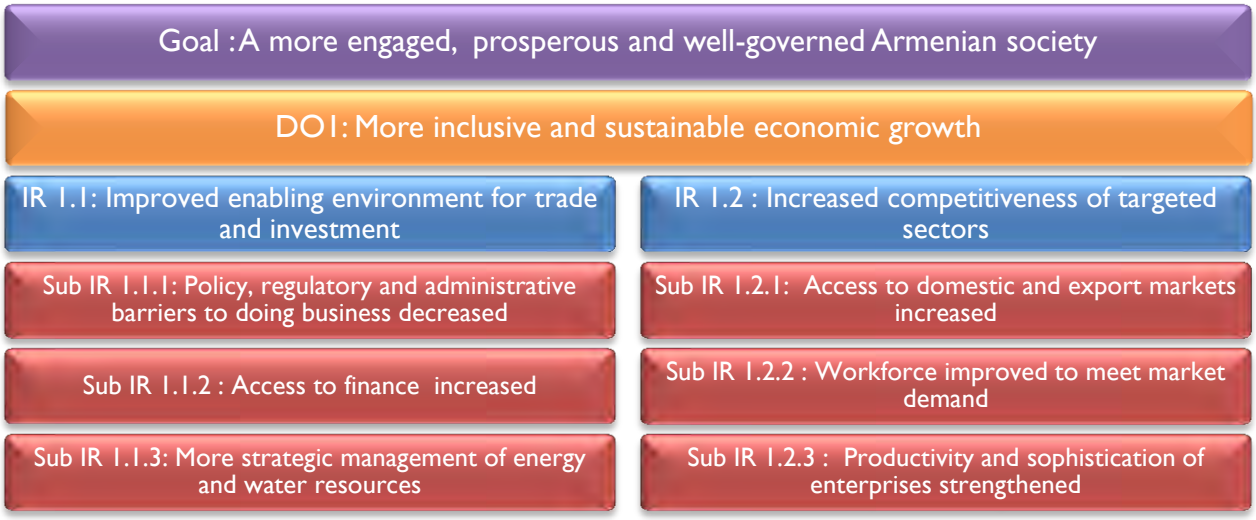
SECTION 3: RESULTS FRAMEWORK NARRATIVES

DEVELOPMENT OBJECTIVE 1: MORE INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH

RATIONALE FOR DO

Armenia has achieved considerable economic success over the past two decades; however, the country has not yet adequately positioned itself to attain sustainable growth capable of creating substantial employment opportunities and materially reducing sharp inequalities and poverty.[75]

- Armenia has significantly refashioned a control economy into a modern system, but vestiges of the old system, monopolies and a series of exogenous shocks to the economy have thwarted the full transformation required for its producers to compete successfully in global markets.
- Recent growth has been fueled by improved harvests and dynamic mining and services sectors and remittances; however, this growth has been uneven among the regions and has not translated into significantly increased employment opportunities.
- The economy remains highly concentrated and dependent on a few sectors; it has yet to yield a diversified, robust and internationally competitive set of industries capable of propelling growth and employment.



EXPLANATION OF DO, IRS AND SUB IRS

The Mission's development hypothesis is that more inclusive and sustainable growth will be achieved if the enabling environment is more attractive for trade and investment and the competitiveness of targeted sectors is strengthened.[76] Recognizing the concentration of economic resources, the Mission will work to increase more inclusive economic growth which creates and expands economic opportunities. The Mission will work to enhance more inclusive growth by supporting competitive industries that generate more productive employment,

[75] USAID/Armenia Economic Growth Assessment, Carana, 2012.
[76] World Bank (2009) *What is Inclusive Growth?* Washington, DC: World Bank

increasing access to markets and resources for small to medium enterprises (SMEs), focusing on rural development and leveling the playing field for investments, businesses and entrepreneurs. Sustaining inclusive growth entails effective policies, increased regional integration, a diversified economy, an enterprising workforce that can drive future growth, and strategic use of resources. To achieve this, USAID/Armenia will:

- *improve the enabling environment* by specifically targeting areas where Armenia scores poorly and thereby reduce opportunities for corruption; increasing SMEs' access to finance; and ensuring a reliable, safe and efficient supply of energy and water essential for a strong business climate and regional stability; and
- *increase the competitiveness of Armenia's economy* both internationally and domestically; focusing on sectors with the greatest potential—especially for SMEs; developing a workforce that will serve as the engine of growth; and strengthening enterprises within these sectors that can pay the taxes necessary for Armenia to fund its own development.

The strategy builds on reform momentum gained and the political will for further economic reform specifically in diversifying the economy, attracting investment, formalizing the economy, investing in rural areas, generating employment and increasing trade and exports.[77] The Mission will achieve the DO by implementing an integrated strategy of "top down" and "bottom up" results-driven approaches that builds on strengths and addresses weaknesses. The approach recognizes the unique and important roles that government, civil society, the business community and market play in enhancing inclusive growth. The Mission will ensure that these actors work in synch with each other to set priorities, overcome constraints, and strengthen competition. The Mission will specifically target areas where USG and donors' diplomatic, technical and financial resources are likely to have the broadest and deepest impact on inclusive growth.[78] The economic growth portfolio will pay particular attention to closing gender gaps in women's economic participation in particular women single-headed households in rural areas and promote women's access to credit.

USAID/Armenia's programming approach in this DO will comply with the provisions and analysis required regarding trade and investment funded activities as specified in ADS 225.[79]

IR 1.1 IMPROVED ENABLING ENVIRONMENT FOR TRADE AND INVESTMENT

USAID will target its efforts on decreasing onerous regulations, improving access to finance and energy/water and addressing inefficiencies in tax and customs administration. Regulatory streamlining processes involving civil society will be supported to reduce the number of laws, regulations and rules thereby reducing the cost of doing business and corruption risks. In partnership with the Ministry of Finance and State Revenue Committee, USAID will ease the burden of tax and customs compliance, improve the government's capacity to formulate tax policy and manage tax appeals, and enhance the discourse between the tax and customs authorities and citizens and civil society on critical issues. USAID will promote enforcement of

[77] A number of events spurred the GOAM's pace of economic reform including the 2008 financial crisis and political violence, 2010 drought, the Arab Spring, 2012 National Assembly elections, 2013 presidential elections, migration rates, political changes in Georgia, budget deficits and increased demand for services, 2014 pension reform, EU negotiations, etc.

[78] A preliminary analysis of key areas include: customs and tax administration; energy; and air transport.

[79] As required by ADS 225, USAID/Armenia will continue to carefully analyze trade and investment activities to ensure that the activities do not a) Provide financial incentives and other assistance for U.S. companies to relocate operations abroad if it is likely to result in the loss of U.S. jobs; or b) Contribute to violations of internationally recognized workers' rights defined in the U.S.C 2467(4).

fair competition through targeted support to the State Committee for the Protection of Economic Competition. U.S. assistance will improve its capacity to detect, investigate, analyze, and remedy suspected anti-competitive conduct with public and civil society participation.

Sub IR 1.1.1 Policy, regulatory and administrative barriers to doing business decreased.

USAID will support the review and identification of the most burdensome policies, laws, regulations, administrative and financial practices that hinder SME competitiveness. Assessing the magnitude of the impact on competitiveness will help the private sector and civil society prioritize and advocate for reform. USAID will also work to remove the administrative and regulatory barriers to trade, export/import, doing business, accessing credit and financial services, and investment protection to improve the business environment and strengthen the policy dialogue between the private sector, SMEs, and government authorities. The Mission will work to enhance the capacity of the Ministry of Finance and State Revenue Committee to formulate pro-growth and business friendly fiscal policies and tax administration.

Sub IR 1.1.2 Access to finance increased.

USAID will improve SME and rural access to a broader array of financial services, working with select financial institutions, capital markets, and the insurance industry to increase financial intermediation. Assistance will include working with innovative commercial finance institutions to develop new financing products for SMEs including establishment of equity investment facilities. Within targeted value chains and rural areas, assistance will improve SMEs' financial management, business planning capacity, and awareness of different financing and investment options. USAID will enhance the competitiveness of the financial sector and markets through supporting streamlined supervision, professional development and capacity, improved governance, and market conduct and consumer protection. Recognizing that women entrepreneurs play an important role in SMEs, the Mission will ensure that access to finance for women is facilitated and links are established to ADB's plans for a large lending facility targeting women.

Sub IR 1.1.3 More strategic management of energy and water resources.

With a focus on sustainability, USAID will consolidate and advance reforms in energy and water management in order to make them more reliable and efficient. Recognizing the needs in addressing Armenia's energy insecurity are greater than USAID's available resources, USAID will be more focused in its assistance - building on and sustaining the impact of past interventions. Integral to sustainability, the Mission will focus on regional energy integration, renewable and alternative energy, advising the GOAM on least cost estimate options in nuclear

energy and supporting a Center of Excellence for transmission planning. Along these lines, the Embassy signed a Memorandum of Understanding with the Ministry of Energy to highlight priority areas and guide assistance efforts. Playing a leading role among donors in supporting reforms and regional integration, USAID will continue to coordinate closely with other USG partners and donors in particular supporting harmonization with the EU and planning efforts.

To achieve this sub-IR, USAID will provide technical assistance in: 1)long-term strategic planning and analyses to identify optimal energy investments in Armenia and region; 2) regional electricity integration; 3) development of a regional energy market, including harmonization of energy regulations with international standards and European Directives; 4) nuclear energy safety analysis and capacity building; 5) efforts to restructure the regulatory environment to be reflect the cost of service and provide adequate returns on investment with transparency; and 6) strengthening of the capacities of Scientific Energy Research Institute (SRIE) to serve as a Center of Excellence. In response to water scarcity issues, USAID will advise the GOAM on hydropower development and water management. Complementary to this, USAID will increase the capacity of water management bodies and communities to improve the accessibility, quality and affordability of water services.

IR 1.2 Competitiveness of targeted sectors increased.

Through rigorous analysis the Mission has identified information technology (IT) and engineering, hospitality, agribusiness and pharmaceuticals as key sectors holding the greatest potential for more inclusive and sustainable growth. The Mission will target these sectors for increased competitiveness within a diversified economy. Assistance will aim to increase access to domestic and export markets, especially for SMEs. Areas of assistance will include streamlining business processes, harmonizing the legal framework with EU legislation, and ensuring compliance with international product standards. USAID will also advocate for conditions required to increase competitiveness of key sectors from a public expenditure and educational perspective. The Mission will work to improve enterprise sophistication while fostering innovation to target the areas in Armenia scores the weakest in Global Competitiveness Rankings.

Sub IR 1.2.1 Access to domestic and export markets increased.

Targeting a diversity of competitive sectors, the Mission will work to expand enterprises' access to domestic and export markets. In some sectors, assistance will focus on increasing export competitiveness while in other sectors the Mission will support increasing access to domestic markets. Building on the Millennium Challenge Corporation's significant investments in rural areas, USAID in partnership with USDA[80] will provide targeted technical assistance to rural businesses, the GOAM, and other agricultural institutions to improve productivity and develop the rural sector's growth potential in domestic and export markets, including hospitality and agro-processing industries.[81] USAID will facilitate strategic partnerships on the local level between government, civic organizations and businesses to promote rural development. Women, who make up more than 50 percent of those employed in the agricultural sector, will benefit from rural development initiatives. The Mission will take special

[80] USAID will gradually assume oversight and management of USDA assistance through a phased transition of resources and responsibilities starting in 2013.

[81] USAID's Economic Growth Assessment recommends targeting the agriculture and tourism sectors to realize growth potential and expand rural economic opportunities.

measures to ensure that that support to the rural sector will alleviate poverty issues associated with women-headed households.

SUB IR 1.2.2 WORKFORCE IMPROVED TO MEET MARKET DEMAND.

Long term, improving Armenia's economic competitiveness will hinge on upgrading the skills of its workforce to support a knowledge-based and competitive economy. To address this, USAID/Armenia will support a trilateral (government, educational institutions and private sector) alliance approach to aligning education inputs with labor market requirements. USAID will form public-private partnerships with US and Armenian companies and educational institutions to bridge private sector demand with high caliber graduates in key sectors such as engineering, IT, hospitality, agribusiness, and business education to support the selected value chains. USAID/Armenia will also assist the Ministry of Education to formulate a strategy for the development of education and training aligned with market demand with private-sector participation. In order to address gender gaps in economic participation, the Mission will make efforts to ensure that gender gaps are bridged in support provided under workforce development. The Mission will facilitate links between its Women's Leadership Program and efforts under workforce development to ensure that women are encouraged and equipped to seek out employment in competitive areas of the economy.

The Mission is specifically addressing gender equality issues through a stand-alone program that will contribute to the sub-IR: workforce improved to meet market demand. Findings of the 2010 Gender Assessment highlighted a mismatch in the number of women earning a higher education and their weak representation in the labor market and leadership roles across sectors. To address this issue, USAID/Armenia formed a three-year higher education partnership between Arizona State University (ASU) and Yerevan State University (YSU) to help university women move into careers that offer the potential for upward mobility and leadership roles in the public and private sectors. Through formal and non-formal education, applied research, and institutional capacity building activities, the program will enhance students' knowledge and skills and broaden attitudes related to women's leadership and options for career advancement, strengthen the capacity of YSU to make research-based recommendations on gender, develop YSU's capacity to deliver coursework that addresses women's leadership and gender equality, and promote women's leadership and gender equality through YSU extension/outreach efforts.

SUB IR 1.2.3 PRODUCTIVITY AND SOPHISTICATION OF ENTERPRISES STRENGTHENED.

USAID/Armenia has identified inadequate business sophistication and lack of management capacity of business owners and managers as one of the major constraints to the competitive performance of important sectors in the economy. Assistance will develop and implement approaches that will increase the capacity of business owners/managers, business associations, marketers and service providers in their ability to assess end markets and to address constraints in sourcing, operation/production, marketing, quality control, use of new technology, workforce, and financial management.

Expected Results for Development Objective 1 in 2017

As a result of implementing the strategy, the Mission expects the following key impacts:

Robust and sustainable economic growth	An economy sustained by a diversified, robust and internationally competitive set of industries which can propel growth and employment enhancing opportunities for SMEs, rural communities, women, youth, elderly and the disabled. An enabling environment that attracts foreign investors – both the Diaspora and others – to develop and builds on Armenia's comparative advantages. Vibrant industries with dynamic clusters have taken hold – supported by public-private partnerships – yielding new gains in export competitiveness and the development of new products and markets. As in the "tiger economies" of East Asia, exports become the driving force of the economy.
Inclusive development leading to more prosperity	Armenia has begun to harness the potential of its human resource advantages and comparative advantages in innovation and key sectors. Rising revenues are being wisely invested in infrastructure, education and innovation, thus contributing to sustainable growth. Rural areas are linked into viable and growing value chains with greater access to markets and benefiting from increased local investment. Armenia and Georgia are expanding regional investment opportunities as both have benefited from increased trade and energy integration. A significant number of successful women-owned and operated enterprises will have been created and an increasing number of women are participating in new sectors of the economy.

What's Different?

The USAID/Armenia Economic Growth Results Framework for 2010-2013 had an Assistance Objective (AO) of *A More Competitive and Diversified Private Sector* based on the development hypothesis that (i) increased capacity of SMEs; (ii) an improved business environment; and (iii) strengthened infrastructure services are the prerequisites to achieving the AO. The new strategy for 2013-2017 builds upon the previous strategy while reorienting and deepening approaches to make economic growth more inclusive and sustainable. The new strategy will focus on rural areas in which 45% of the population is engaged in agriculturally-related activities[82]. Moreover, a strategic decision by the United States Department of Agriculture (USDA) in late 2012 to wind down its activities during FY2014 added additional impetus for the expansion. With declining resources in energy and water, the Mission has focused more on sustainability and maintaining close coordination with donors. Additionally, to address the gradual decline in programmatic resources and meet the Agency's objectives of focus and selectivity, USAID has narrowed the number of its program areas from four to one under economic growth.

Donor Coordination and Key Stakeholders

The following table highlights essential partners in the implementation of the strategy. While donors are many in economic growth, USAID is unique in being a direct provider of technical assistance. USAID/Armenia will continue to closely coordinate with other donors – mainly IMF, WB, and the EU in achieving the DO. Achieving the DO and associated results will rely in part on donors' contributions in key areas of competitiveness, trade, tax and customs, and the business environment. The WB and EU in particular have complementary assistance programs that will allow USAID to achieve the ambitious results set forth in the strategy. USAID will coordinate assistance and fill comparative niches in maximizing results.

[82] *Country Program Snapshot*, World Bank, 2012.

	Access to Finance	Competitiveness/ Business Environ.	Tax Customs	Financial Sector	Energy/Water	Rural Development
ADB	X	X	X		X	
ANRA					X	
CBA	X					
EBRD	X					
EU		X	X		X	X
MinFin	X				X	
GIZ		X			X	X
IBRD		X		X	X	X
IMF				X		
Min Nature					X	
MinEcon		X				
MinEd		X				
MoENR					X	
MTA						X
SRC	X	X	X			
UN		X			X	X

Development Objective 2: More participatory, effective and accountable governance

Rationale for DO

Marginalization of citizens from policy-making and politics, weak enforcement of laws and policies, insufficient access to reliable information, and corruption represent significant obstacles that stem from an underlying issue – the concentration of power. Armenians lack genuine checks and balances in the political system.[83] More accountable, participatory and effective governance is critical to ensuring a well-governed Armenia in which progress, stability and more equitable prosperity are sustained over the long-term. As previously noted, USAID has spent considerable effort over the last twenty years in strengthening democratic governance in Armenia. A sober review of progress to date has shown where investments have succeeded and where, in other areas, progress is limited at best. The Results Framework under DO 2 represents a more focused approach based on extensive evidence-based analysis.

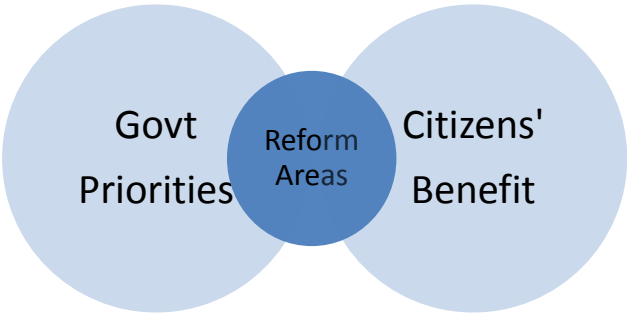
Explanation of DO, IRs, and Sub-IRs

The development hypothesis underlying DO 2 is that more participatory, effective and accountable governance will result if (1) citizens are engaged in and exercising oversight over the policy process; and (2) policymaking and reform implementation are transparent and responsive to the citizenry; and 3) decision making authority is decentralized to the lowest competent level in government. USAID will therefore seek to enhance the competition of ideas through access to information and mechanisms that foster input and debate, and will seek to strengthen competition between branches and levels of government through accountability.

[83] *Democracy, Human Rights and Governance Assessment of Armenia (DRG Assessment)*, TetraTech, December 2012.

In contrast to previous strategies which entailed support to civil society, the judicial system, and political parties and processes, the proposed strategy will take a new and more focused approach which targets reform areas where government priorities and citizens' interest converge as illustrated in the graphic above. Employing a democratic and participatory approach to advancing reform across sectors, the impact of DG's interventions will permeate the entire portfolio and not be limited to traditional areas. Working more collaboratively with the government, the Mission will employ a "learning by doing" approach using the reform areas as tools to develop and reinforce a set of key competencies, institutions, and practices within civil society and the government.[84] Civil society and the media have vital roles to play in ensuring government effectiveness in reform as advocates and watchdogs while also promoting the government's own capacity to monitor its progress toward reform.

Per the recommendations of the DRG Assessment, one of the best opportunities for economic, political and social development is developing local governance. Strengthening



democratic governance at the local level – where the space between citizens and government is the closest - can serve as a model for participatory and responsive governance on the national level. At the same time, the Mission will assist the GOAM in implementing its priority for municipal reform. The Mission's "narrative of change" for targeting the local government entails four considerations. First, drawing on the conclusions of the DRG assessment, the Mission believes strengthening local municipal capacity holds the greatest chances for addressing the concentration of power - the key constraint. Second, rural areas are clearly where the needs are the greatest and

Anticipated Reform Areas

- ✓ **Local governance**: Targeting where the space between citizens and government is closest, the Mission will strengthen democratic governance at the local level. USAID will assist the GOAM in implementing a sustainable system for administering municipal services including consolidation and devolution of authority.
- ✓ **Pension/social inclusion:** the GOAM plans to roll out a new and fiscally viable pension system in 2014; USAID has been a key partner in assisting GOAM in designing the pension system that will be a first-of-its-kind national reform; USAID will support policies that promote social inclusion and provide services for vulnerable children, the disabled, elderly and other marginalized groups.
- ✓ **Good governance:** USAID will assist the GOAM in increasing transparency and gain efficiencies in administration to mitigate opportunities for corruption.
- ✓ **NGO enabling environment:** A critical element for success for USAID is to enhance civil society's sustainability by pushing for comprehensive legal changes and strengthened mechanisms that would increase NGOs' financial and organizational viability.
- ✓ **Tax and customs reform:** USAID will work with the GOAM to ensure tax and customs policies that are sufficient in meeting public investments, business friendly and consistently applied;
- ✓ **Competition policy and business environment:** USAID will be a partner to GOAM agencies that are charged with increasing competition and eliminating excessive regulations;
- ✓ **Regional development:** Consistent with GOAM priorities, USAID will support economic development and investment in rural areas;
- ✓ **Health:** USAID will advocate for a higher percentage of public expenditures to be invested in health and ensuring the benefits of an open enrollment system are sustained;
- ✓ **Gender/domestic violence:** USAID will support measures to ensure that recourses for domestic violence are in the legal code.

[84] The anticipated reform areas are summarized in a text box below. Cooperation on some of reforms will be formalized in a Development Objective Cooperation Agreement which is currently being negotiated.

poverty and marginalization are the highest. Third, within the development hypothesis, strengthening local governance provides the greatest opportunity for building democratic governance from the bottom up by targeting where the distance is the closest between citizens and government. Fourth, in contrast to previous local government programs, the Mission is providing assistance in response to the government's requests and prioritization of local governance reform.

Central to taking a new approach, USAID/Armenia will develop a comprehensive monitoring and evaluation plan for the DO. This will entail developing measurable indicators, establishing milestones, monitoring benchmarks, and contingency planning.

In the democracy and governance sector, USAID/Armenia has been a pioneer in advocating the inclusion of female candidates in the Parliament, and designing activities to enhance women's civic participation. USAID will champion the inclusion of women and youth as candidates in local political process and governance.

IR 2.1: Increased civic engagement in and oversight of reforms

Citizens and civil society institutions are critical to ensuring that there is a competition of ideas and mechanisms for debate of public policy, and to the success of a bottom-up inclusive, participatory approach to democratic development.[85] The purpose of this IR is to enlarge the nexus in which government reform and citizen engagement meet, paying special attention to supporting youth and women to play a greater role in civic and political life. Demand for good governance and civic engagement will be strengthened by the momentum gained in reform and working in rural areas that can benefit most from increased representation. USAID will work to improve participation, transparency and accountability.

Sub-IR 2.1.1: Civil society's ability to engage citizens and articulate their interests improved and sustained

The Mission will seek opportunities to promote new types of civic engagement, develop the role of civic actors in rural areas, increase the sophistication of civic actors' ability to formulate policy and exercise oversight, improve access to media and information sources, and expand civic education. An improved enabling environment for civil society's organizational and financial viability is key to ensuring civil society's sustained ability to influence the reform process. USAID will support legislative and regulatory changes conducive to diversification of funding opportunities; improved internal mechanisms enhancing NGOs' organizational capacity to govern themselves in a publicly accountable manner, the strengthening of constituencies and improvement of NGOs' public image and credibility.

Sub-IR 2.1.2: Monitoring of government institutions, officials, and policy process strengthened

USAID will provide support to civil society organizations, including NGOs, foundations, think tanks, research centers, community-based organizations, and traditional and social media outlets, to improve their abilities to analyze government performance in a systematic, evidenced-based manner, monitor government reform processes, assess impact of reforms, and hold government officials accountable.

[85] DRG Assessment, 2012.

SUB-IR 2.1.3: CITIZEN ACCESS TO INDEPENDENT AND RELIABLE INFORMATION INCREASED

A citizenry that is well-informed and expresses its interests in policies, programs, and services provides a means by which governance can be responsive. Under this sub-IR, USAID/Armenia will increase citizen access to reliable sources of information. USAID will strengthen media capacity to meet professional standards of journalism and reflect a diversity of perspectives in reporting. As a result, journalists will be more professional; networks of media outlets will be strengthened; and access to credible and professionally produced information will increase.

IR 2.2: MORE OPEN AND RESPONSIVE POLICYMAKING AND IMPLEMENTATION

USAID/Armenia will chart a new course in its approach to strengthening good governance. The Mission will target assistance to governance areas where a consensus emerges for reform, there is demonstrated leadership by government, and the reform has the potential for tangibly impacting citizens. These areas include but are limited to decentralization, good governance/anti-corruption and social policy. Using the reforms as tools, USAID/Armenia will work with the GOAM to strengthen their implementation in a participatory, transparent and effective way, thereby creating a model approach to reform overall. The supply side for good governance will be strengthened by bolstering the technical and administrative capacity of the GOAM at the national and local levels to implement key reforms. Through these actions public decision making and access to information will be strengthened.

SUB-IR 2.2.1: GOVERNMENT POLICY PROCESS MORE TRANSPARENT AND PARTICIPATORY

Support will be directed at the GOAM policy making institutions, including target ministries, local governments, and the National Assembly. Holding regular town hall meetings, publishing draft policies and legislation, instituting e-governance, developing protocols that foster participation are all examples of the mechanisms that USAID will support to encourage civil society-government collaboration. Support for an anti-corruption strategy based on e-governance will reduce contact between the public and civil servants, reducing administrative discretion and opportunities for corruption. USAID will provide assistance to Committees of the National Assembly to strengthen the debate, public input, evidence-based analysis, and rigor involved in the legislative process. Through activities, the Mission will promote Parliamentary Committees' attention being given to gender issues in relation to pending laws on Gender Equality and Gender-based Violence. Through assistance to Ministries and Parliamentary Committees, the Mission will support gender participation and issues of gender to be considered in relation to selected reform areas.

SUB-IR 2.2.2: TECHNICAL CAPACITY TO IMPLEMENT AND MONITOR NATIONAL REFORMS STRENGTHENED

USAID will help build the capacity of state institutions to plan and carry out the steps needed to develop and implement key reforms, such as strategic and budget planning, data collection and technical analysis, drafting realistic action plans, improving information and financial systems, and expansion of knowledge and skills of staff, in an open, responsive and accountable manner. USAID will support GOAM in the development of mechanisms for internal monitoring of progress on targeted reforms, a critical element of their ability to taking ownership of those reforms, learn as they go along, and adapt strategies to fit changing circumstances. Transparency of these monitoring systems – both in terms of methodologies and results – will be paramount.

Social policy is one of the key reform areas that USAID/Armenia will assist the GOAM to implement with a focus on improved social services that meet citizens' needs, particularly for the most vulnerable populations. The Mission will also assist relevant government institutions in rolling out the pension reform with transparency and civic input, administering a sustainable pension system with mechanisms for accountability and civic oversight. Part of USAID's assistance will go toward improving public awareness of the reform and ensuring citizens are empowered to exercise their rights and responsibilities in relation to pension reform. Support will be provided to civil society organizations to improve policy formulation, advocacy and oversight for social policy. The Mission will also provide assistance to the GOAM in providing community-based services for vulnerable populations, especially institutionalized children and the disabled. This important social reform will go a long way towards increasing civic trust in public services as well as improving government effectiveness and sustainable delivery of services. A functional pension system will play an important role in reducing old-age poverty in particular female old-age poverty associated with Armenian women's relatively long life expectancy. Improved community level social services and policy reform will create the conditions for deinstitutionalizing orphans and vulnerable children.

SUB-IR 2.2.3: MUNICIPAL CAPACITY, SERVICE DELIVERY AND PARTICIPATORY DECISION-MAKING STRENGTHENED

USAID/Armenia will work in close collaboration with the GOAM to empower local government actors such as mayors and city councils. USAID will ensure that women, who make up a majority of the rural population due to migrant labor, have a greater voice in more participatory local governance. Building on success in working with selected municipalities, the Mission will upgrade the skills of officials and staff, increase the capacity of the municipality to mobilize public and private resources for local development, and strengthen networking, cooperation, and information-sharing among communities to enhance learning and local political influence. Recognizing the important role women play at the local and rural level, the Mission will work to increase women's involvement in local decision-making, local political processes and decentralization.[86]

EXPECTED RESULTS FOR DO IN 2017

DO 2	*THE GOVERNMENT IS MORE ACCOUNTABLE AND RESPONSIVE TO CITIZENS' CONCERNS, ESPECIALLY AT THE LOCAL LEVEL; CIVIL SOCIETY AND GOVERNMENT WORK COLLABORATIVELY TOWARD COMMON OBJECTIVES; THE INCIDENCE AND PERCEPTION OF CORRUPTION DECLINES WITH GREATER TRANSPARENCY; COMPETITION AMONG LEVELS OF GOVERNMENT IS ENHANCED; MEDIA AND CIVIL SOCIETY ARE MORE INDEPENDENT AND SUSTAINABLE. SOCIAL POLICY PROTECTS MARGINALIZED GROUPS.*
IR 1	**An engaged civil society equipped to play a greater role in governance**: A new *cadre of civic actors* plays a more active role in holding government accountable, engaging and representing citizens' interest and providing more sophisticated input to the policymaking process. Civil society expands its role to serving as effective interlocutors across sectors. Civil society and government have solid experience in working toward common aims. The enabling environment for NGOs improves and NGOs become more beholden to citizens and constituencies rather than donors. Civil society, especially in rural areas, is measurably more active in representing and meeting citizens' needs. Reliable and quality information is more accessible resulting in more informed debate and competition of ideas within society. Citizen

[86] See Gender Update in Annex E for more information on specific gender issues.

	watchdog groups are supported in the media.
IR 2	**More capable, transparent and responsive governance, especially at the local level.** Implementation of select national-level reforms results in measurable improvements in open and transparent governance with strengthened checks and balances and improved service delivery. Implementation of reforms tangibly benefits citizens improving accountability, civic participation and spurs the momentum for further reform. Municipal governance is more capable, representative of citizens' interests, financially viable and responsive. GOAM rolls out the new pension system is resulting in a more equitable, efficient, and sustainable benefits. GOAM provides social services at the community level, reducing institutionalization of vulnerable children.

Contingency Plan for DO

USAID/Armenia recognizes there are risks involved in taking a new approach to achieving the DO. First among the risks is the government's commitment to reform and the potential that the pace at which the GOAM pursues reform is slower than anticipated. To mitigate this risk, the Mission has developed an approach which follows on the GOAM's stated priorities and requests for assistance backed by a Development Objective Cooperation Agreement (DOAG) with conditionality. In principle, the G2G funds will provide incentive for the GOAM to follow through on their commitments while the DOAG will provide accountability. If the GOAM does not follow through with reforms, the Mission will consider further investment in civil society and local government and reprogramming funds into these areas . By building up these two actors, advocacy and the demand-side of reform will be strengthened. The Mission will also consider bolstering support to other areas where reform traction is being gained and results demonstrated.

Another risk associated with the DO strategy is that civil society does not have sufficient absorptive, technical and operational capacity to achieve results as intended. To mitigate this risk, the Mission plans to invest in developing their capacity through a specific activity that utilizes intermediary organizations to provide capacity-building and organizational development assistance. As a contingency plan, the Mission will consider bringing in international support to act as resource partners to CSOs in achieving its objectives.

What's Different?

The Mission has strategically chosen to shift resources away from rule of law, where political will for fundamental reform is questionable, many donors are engaged and USG Interagency partners (INL and DOJ) are taking the lead. Given the timing of elections and the strategy period, outcomes of recent program evaluations and in alignment with the DRG Assessment's recommendations, the Mission has decided to reduce its support for election processes and political party strengthening at the national level given that the strategy period will be characterized by the absence of national elections. Focus will shift to the local level where parties have the opportunity to strengthen their ties with constituents by participating in local governance. USAID believes that investing in other areas will produce more tangible results. With the CDCS, the Mission's approach to democracy and governance will shift from a demand-side approach to a balanced demand-side and supply-side approach. Under the prior

strategy, USAID worked in almost all program areas and in the CDCS has focused to two: good governance and civil society.[87]

Finally, in contrast to the prior strategy, the Mission will take a new approach to civil society strengthening. Rather than supporting civil society to increase citizen participation in the aggregate, the Mission will support civic actors in advancing specific government reforms while continuing to improve the enabling environment for NGOs and bolstering their internal capacity.

Following the precepts of USAID Forward, the Mission will maximize the use of government-to-government agreements to implement activities in this sector. The Mission is currently in the second stage of analysis of host country financial management capacity (PFMRAF) and anticipates that three ministries will qualify for G2G arrangements this year: the Ministry of Justice for anticorruption activities; the Ministry of Territorial Administration for decentralization; and the Ministry of Social Issues on social policy including pension reform and child protection.

Donor Coordination and Key Stakeholders

In implementing the CDCS, the Mission will closely cooperate and collaborate with the following donors: EU in order to leverage each other's assistance against progress made in key reform areas; GIZ in decentralization which includes preparing model scenarios and conducting analysis of cost benefits of consolidation; and WB in increasing transparency and good governance. Key donors engaged in DG sub-sectors are shown in this chart:

	Rule of law	Elections	Media	Civil Society	Political Process	Anti-Corruption
EU	X	X	X	X		X
GIZ	X				X	X
WB	X			X		X
OSF	X	X	X	X		X
OSCE		X	X	X	X	X
CoE		X			X	X
USG/DOJ	X					X
USG/INL	X					X
UN	X			X		X

Special Objective: Quality and Utilization of Selected Healthcare Services Improved in Priority Areas

Rationale for SPO

Despite substantial progress in improving health outcomes over the decade of assistance provided, issues remain in three areas: maternal and child health; reproductive health; and multi-drug resistant tuberculosis (MDR-TB). Armenia is not on track to meet its Millennium Development Goals target for either under-five (U5MR) and maternal mortality rates (MMR). Contraceptive prevalence rates remain markedly low with only 27 percent of married women using modern methods; 21 percent of currently married women have unmet need for family

[87] Program areas under the previous strategy include elections, political parties, rule of law, civil society, media, local governance, anticorruption, and legislative strengthening,

planning.[88] According to the 2010 DHS, one in five children under age five is stunted and four percent are nutritionally wasted. Stunting or chronic malnutrition has grown in the past decade. Armenia ranks in the top ten worst countries in the world for MDR-TB, with rates of 9.4 percent for newly diagnosed and 43 percent for recurrent cases.

Another part of the rationale for the SPO is to institutionalize two decades of USAID assistance to the health sector effectively and consolidate the improved outcomes achieved. Important investments have been made in laying the foundation for a more equitable and efficient Armenian health system. With USAID assistance, the GOAM introduced a Basic Benefits Package (BBP), providing free primary health care and maternity services to all Armenians. Every resident is also now able to choose his or her own health care provider in the Open Enrollment System. In partnership with the Ministry of Health, family doctor and nursing skills improved and family medical practitioners opened independent practices. Targeted interventions and focused commitment resulted in U5MR decreasing by nearly half and improvements in vaccination and antenatal care coverage.

SPO: Quality and utilization of selected healthcare services improved in priority areas

IR: Health resources more effectively targeted to address priority areas

IR: Public and private sector capacity to deliver quality services in priority areas improved

IR: Public health surveillance in priority areas improved

Explanation of SPO and IRs

Assistance under this Special Objective will have a shorter timeframe than the rest of the strategy. USAID funding for the sector will cover activities through December 2016. USAID/Armenia will seek to ensure that USAID activities leave a lasting impact on the health care sector in three priority areas: maternal and child health; reproductive health; and tuberculosis diagnosis and treatment. Achieving results under this objective will consolidate USG long-term commitments in the region and contribute to the economic and social development of the country. The Special Objective (SPO) is consistent with USAID/Armenia's Global Health Initiative (GHI) strategy that was approved in March 2012, albeit in a narrower and more focused manner.

USAID/Armenia will continue its strategic partnership with the GOAM, civil society, and other stakeholders to address weaknesses and gaps in the health system that are critical in reducing maternal and child mortality and the burden of TB in the country. In particular USAID will address inefficiencies in health resource allocation, the capacity of the health system to deliver quality services, and weaknesses in public health surveillance.

[88] National Statistical Service [Armenia], Ministry of Health [Armenia], and ICF International, 2012. *Armenia Demographic and Health Survey 2010.*

Over the course of the strategy, USAID will strive to create functional partnerships among government and non-governmental organizations to ensure mutual collaboration and delineation of roles and responsibilities in delivering health services.

An effective and comprehensive performance monitoring plan will measure progress in achieving the results at the SPO and IR levels. Impacts and outcomes will be verified through evaluations and other techniques.

Timely access to quality health services is critical to ensure better population health outcomes. USAID will target both access to and quality of care as the two most important components of a well-functioning health system. USAID will support the GOAM's efforts to achieve a balance between demand and supply side to ensure effective utilization of health services.

The Mission will pay special attention to gender gaps in the design and implementation of assistance to the health sector. The Mission expects that activities will play a significant role in relation to gender given the priority areas are vital for women including family planning, reproductive health, and maternal and child health. USAID will continue to ensure that such programs address the interconnected issues of violence against women and vulnerability to HIV/AIDS. In addition, USAID will ensure that these services are accessible to greater numbers of women by supporting marginalized women. USAID will improve MCH service delivery for women and children, increase the use of modern contraception to promote healthy timing and spacing of pregnancies, and ensure patient-friendly TB services are equally accessible to both genders. The Mission will also examine ways to address the alarming trends in sex selection before birth.

IR 1: HEALTH RESOURCES MORE EFFECTIVELY TARGETED TO ADDRESS PRIORITY AREAS.

Adequate health financing is critical to achieving access to health services and ensuring social protection in health. Public expenditures on health relative to GDP is low (1.79%) and therefore it is critical to maximize the efficiency and use of resources.[89] USAID will support the GOAM to improve relevant legislation, financial audit and public expenditure reviews and clear operational rules to ensure efficient use of funds. Specifically, USAID will support the State Health Agency (SHA) in strengthening legal, regulatory, technical, and operational frameworks for the national funds for the Basic Benefit Package. USAID will continue to advocate for the GOAM to increase the allocation of public expenditures as a percent of GDP for health

[89] Millennium Challenge Corporation FY13 scorecard, Armenia, http://www.mcc.gov/documents/scorecards/score-fy13-armenia.pdf.

programs and promote risk pooling mechanisms. The USG will coordinate with other donors, including the World Health Organization (WHO) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), to work with the SHA and National Tuberculosis Program (NTP) on refining the provider payment system for TB services. USAID will give special emphasis to creating incentives that promote evidence-based approaches and discouraging harmful practices.

IR 2: Public and private sector capacity to deliver quality services in priority health areas improved.

USAID will continue strengthening the capacity of both government and non-governmental organizations to identify and address key gaps in delivering services. USAID will support the MOH in developing and adopting effective policies; making better and more effective use and distribution of human, financial and pharmaceutical resources; managing health care facilities; and improving the performance of health care providers. USAID will enhance the role of civil society organizations in advancing health care standards, raising awareness of health issues, and encouraging citizens to seek healthcare services. USAID will seek to establish partnerships with private sector to promote the idea of corporate social responsibility and leverage resources. While specific focus will be given on the above-mentioned services, successful practices will be replicated and applied to other health services. USAID will strive to improve the leadership role of the host country in establishing effective public health partnerships within government and with civil society and private sector providers.

IR 3: Public health surveillance in priority areas improved.

USAID will strengthen the GOAM's capacity in the continuous, systematic collection, analysis and interpretation of data needed for the planning, implementation, and evaluation of services. This will help the healthcare system document the impact of interventions, track progress towards specified goals. Assistance will be directed toward monitoring and clarifying the epidemiology of health problems to set priorities and inform public health policy and strategies. A particular focus will be given to improving nutritional surveillance of children under five to prevent the development of chronic malnutrition, tracking TB case management to prevent treatment drop-outs, and monitoring leading causes of maternal and child mortality. USAID will encourage continued GOAM investment in maintaining the health information system[90] to expand its use in strategic planning, policy purposes and disseminate information on the BBP. USAID will continue supporting the optimization of routine recording and reporting systems for health facilities and promote the provision of feedback on performance.

Expected Results for SPO

Under the SPO, the Mission expects in 2017 to have improved health outcomes in priority areas and a health system that ensures the sustainability of USAID's significant investment in the sector. Legacies of USAID assistance to the health system will include a focus on targeted results, provision of accessible and quality services, increased mobilization and efficient use of resources, and robust systems of surveillance.

Essential services for mothers and children at critical points in pre-pregnancy, pregnancy, birth, and early childhood will be significantly improved in quality and efficiency. As a result, there will be reduced incidence in maternal and child morbidity and mortality. USAID investment will

[90] Medical Institution Data Analysis System-3rd Version

reduce excessive hospitalization and promote diagnosis and treatment at the PHC level, expand patient-friendly models of care, and improve TB infection control, which will ultimately result in higher TB case detection and treatment success rates and decrease the overall burden of the disease. USAID's efforts to improve access to and use of more reliable methods of contraception will reduce the number of unwanted pregnancies and the incidence of induced abortions, thus improving the reproductive health of women in Armenia.

What's Different?

In the health sector USAID will shift from a broad system-level intervention to focused approaches addressing remaining pockets of morbidity and mortality revealed by the 2010 DHS and other valid surveys. In accordance with USAID Forward and in contrast to previous assistance that was implemented primarily through contracts and grants to traditional implementing partners, the Mission will channel assistance to international and local organizations that intend to remain in Armenia over the long term to improve their capacity and create legacy programs and institutions. USAID/Armenia will build on existing partnerships and redouble efforts to create new long-term partnerships that will bring added resources and technologies to the sector. By building capacity and increased partnership with civil society and the GOAM, USAID will foster investment and growth while improving transparency and accountability.

Donor Coordination

USAID's interventions in health will be highly coordinated with other donors and with the Ministry of Health. USAID will partner with the World Health Organization (WHO), UNICEF, and UNFPA to address maternal and child health and reproductive health. In collaboration with the WHO and the Global Fund, USAID will work with the State Health Agency and National Tuberculosis Program on refining the provider payment system for TB services. Coordination with the World Bank will help define the most effective organizational structure for primary health care in urban areas and encourage an optimal provider mix.

Cross-Cutting Priorities

Cross-border

As stated in the ICS, the USG will work to implement substantive confidence-building measures between Armenia and Turkey. In recognition of the current political impasses, USAID will maintain support for reconciliation among key non-state actors in Turkey and Armenia within the economic sphere where there is the most incentive for linkages. Employing a strategy to expand and strengthen partnerships among influential Armenian and Turkish professional, business and civil society groups, USAID in close coordination with the US State Department will provide the necessary groundwork for decision-makers to make Armenia-Turkey reconciliation a policy priority.

Based on lessons learned from an evaluation of USAID's Support to Armenia-Turkey Rapprochement project, USAID will target economic actors on both sides of the border and promote economic linkages and partnerships. Armenian civic organizations including think-tanks, business-oriented NGOs, and trade associations will be incentivized to partner with Turkish counterparts. The overall expected result of this project is increased mutually beneficial economic partnerships and linkages between Armenian and Turkish organizations that

enhance prospects for longer-term economic development and Armenia-Turkey reconciliation. Results of the initiative will contribute to the Sub IR: Access to domestic and export markets increased with the Results Framework.

Development Outreach and Communications

Over the coming five years USAID/Armenia will capitalize on the legacies of the USAID Mission's investments in Armenia since 1992. Public outreach will play a vital role in achieving a more focused and opportunistic strategy and facilitating host country buy-in. USAID/Armenia will pay special attention to sending the appropriate messages in areas that will be phased out and will highlight themes such as "going local" which cross-cut the strategy. Communications will be an integral part of USAID's approach under the CDCS to ensure consistent voice and engage partners. Outreach initiatives will recap core messages of the CDCS, including closer collaboration with the Government of Armenia, direct engagement with local organizations, gender equality and inclusion of women and youth, strategic partnerships, and themes of competition and transparency. USAID will work closely collaborate with Public Affairs and partners to raise public awareness of USAID's work, mark achievements, and highlight legacies and successes in USAID assistance across sectors.

Science Technology Innovation Partnership (STIP)

Elements of science and technology are present throughout USAID/Armenia's CDCS and the Mission has invested nearly $45 million in recent years in projects that incorporate STIP elements. STIP lies at the heart of USAID/Armenia's economic growth activities, in particular the value chains of IT and agro processing. The Microsoft Innovation Center (MIC), the Armenian National Engineering Lab (ANEL), Enterprise Development & Market Competitiveness (EDMC), Clean Energy & Water (CEW), Energy Assistance to Strengthen Energy Security and Regional Integration (ESRI) all aim at increasing the use of technology in economic growth. Two buy-in activities with the LEDS project and the United States Energy Association (USEA), are designed to enhance energy efficiency through application of improved technology, among other goals. Furthermore there are two new direct grants with the Scientific Research Institute of Energy (SRIE) as well as the Nuclear Radiation Safety Center (NRSC). In addition, the Agribusiness Training Center (ATC $2.5-3 million) is designed to promote the latest agricultural technology across the Armenian economy.

The Democracy and Governance sector is equally committed to this approach. Technology is being applied to the issue of transparency, corruption monitoring and reporting. To encourage citizen participation in monitoring of electoral processes, USAID supported the launch of www.iDitord.org ('ditord' means 'observer' in Armenian) crowdsourcing platform for trained observers and citizens to report alleged elections-related violations on a digitized map of Armenia. The tool allowed reporting and posting citizen eye-witness accounts (including photos and links to videos) through multiple channels, including Internet, Twitter, text messaging, and email. During the 2012 Parliamentary elections period, iDitord.org received 1,141 reports of alleged violations, registered 9,800 unique visitors and 91,500 page views. The Armenian Police were among the most active visitors of the website and responded to the posted violations.

The effect of the emphasis on STIP is already having an effect on development outcomes. With the introduction of the Microsoft Innovation Center there has been a sharp increase in tech start-ups in Armenia. The Center provides students with the ability to enroll in classes on

learning new programming languages and also hosts seminars on how to pitch one's business to investors. The National Engineering Laboratory project ($2.96 million) provides engineering certification courses, upgrades the capacity for scientific research at the State Engineering University, and delivers customizable engineering solutions to the industry.

In addition in the area of applied scientific research, Armenia was chosen as the only country in the E&E region this year as an awardee by the National Science Foundation's PEER program. The Partnerships for Enhanced Engagement in Research (PEER) program, a joint initiative with the NSF to support developing country researchers who partner with NSF-funded American researchers. NSF has limited ability to directly fund developing country collaborators taking part in this research, so PEER addresses this gap by using USAID resources to directly support developing country researchers collaborating with NSF-funded researchers.

Coordination with USG Interagency, Donors & Host Country

Over the five-year period, USAID will coordinate amongst USG agencies represented at post, those based in Washington and EUR/ACE and F through a variety of mechanisms. Working with the POL/ECON section and the Embassy Assistance Coordinator, USAID will continue to coordinate on ongoing initiatives such as the U.S.-Armenia Joint Economic Task Force, Diaspora engagement, and private-public partnerships.

USAID will work closely with the GOAM and the donor community in Armenia to complement and reinforce assistance efforts. USAID will continue to take an active lead role in donor coordination as a co-chair of Armenia's Donor Coordination Group—along with IMF, the World Bank, UNDP and the EU—that includes bilateral missions, international organizations and international NGOs. USAID 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.

Advancing USAID Forward

Building Local Sustainability and Partnerships

In order to maximize the legacies of USAID's investments in Armenia, the Mission has designed the CDCS to develop the lasting institutions and capable partners needed to lead the reform agenda in the absence of USAID support. Taking a new approach in which the Mission will work more collaboratively with the GOAM, USAID/Armenia will be directly supporting government institutions that demonstrate a clear willingness to reform. USAID will invest in developing the institutional capacity of a whole host of new local partners to support and monitor reforms across the portfolio with the explicit goal of exceeding the Agency target of 30 percent of assistance programmed through local entities. International contractors will be used as resource partners or sub-grantees to ensure the smooth transition of this part of the strategy. Working with more local organizations, USAID will improve their capacity as well as build new and effective partnerships. A key aspect of the Mission's approach will be to increase partnerships with the private sector, civil society, and other donors that will spur reform and investment.

An example of the progress the Mission is already making in building local sustainability includes a former sub-grantee under an anti-corruption program which became a primary recipient of USAID funding and subsequently awarded two local sub-grants of its own. With the direct funding, it is operating 11 anti-corruption centers and providing legal assistance to close to 5,000 citizens. As mentioned in the DO2 narrative, USAID/Armenia intends to create three G2G partnerships for implementation of the anticorruption, decentralization and social policy activities, and will complete the host country financial management capacity analyses.

Fostering Innovation

The Mission will capitalize on opportunities to support new technologies and foster innovation in implementing the strategy. Building on Armenia's comparative advantages in IT and innovation in software development, the Mission will support it as a means by which geopolitical constraints and isolation can be overcome.[91] An example of how USAID/Armenia will support advances in science, engineering and technology is the GDA the Mission developed with National Instruments, the Enterprise Incubator Foundation, and the State Engineering University to help establish the Armenian National Engineering Laboratories that offers engineering certification courses, upgrades scientific research and delivers customized engineering solutions to industry. Another important partnership for innovation is the Microsoft Innovation Center, which provides certification courses and promotes unique software solutions to key challenges in the economy. Finally, USAID will capitalize on opportunities that arise in using mobile technologies for commerce, delivery of services, civic engagement, and increasing transparency.

Strengthening Capacity to Deliver Results

The Mission has developed strong expertise in monitoring and evaluation. Having conducted an average of five evaluations per year over the last three years, the Mission has a strong foundation for assessing results, integrating lessons into program design and capitalizing on best practices in localizing our assistance. In implementing the strategy, the Mission will maintain the momentum built up in monitoring and evaluation to accurately assess impacts and measure results. Evaluations have informed the design of the strategy including approaches to cross-border initiatives, political processes, rule of law and health.

Section 4: Monitoring, Evaluation and Learning

A robust USAID monitoring and evaluation (M&E) system is critical to the success of the USAID/Armenia strategy. The M&E system is designed to help the Mission to identify if expected results are being achieved consistent with established timeframes, whether implementation is on track, and if new approaches are gaining momentum and traction. The M&E system will also provide a means by which the Mission will be able to monitor whether project outcomes are linking with results and overarching Development Objectives as intended.

Consistent with CDCS guidance, the Mission will develop a new Performance Management Plan (PMP) within four months of CDCS approval. The PMP will enable the Mission to monitor and manage a core set of performance indicators that reflect appropriate targets, baselines, and data collection and review and analysis of approaches. The PMP will be updated once a year along

[91] USAID/Armenia will ensure it does its due diligence in ensuring support for innovation will adhere to the parameters of USAID ADS 225.

with strategic portfolio reviews. A list of illustrative indicators for the RF is provided in Appendix B. Performance indicators will reflect the hierarchy of the results framework with indicators defined at each level of the framework. Contextual indicators are included in order to demonstrate what broader sector and country trends will be used to monitor the context in which USAID's results are being measured. Indicators will be disaggregated by sex.

There are some challenges in designing an effective M&E system which include: 1) inconsistencies and weak precision of secondary data which limit its reliability in using it to establish baselines and calculate margins of error; 2) the quality of data collection that new local implementing partners are able to provide;[92] and 3) establishing appropriate and rigorous milestones and benchmarks to effectively monitor new approaches that entail direct arrangements with local actors including government.

To address these challenges and ensure maximized results, the Mission will institute a M&E system that is built on a strong evidence base with specific and regular points built into the plan at which the Mission will take stock and assess results against milestones, benchmarks and targets. The Mission will also build up and maintain rigor in conducting evaluations that can inform the strategic approach and provide important learning to more effectively target activities to outcomes. Building upon the Mission's institutional knowledge base, USAID/Armenia will continue to conduct a high volume and high-quality project evaluations through the strategy period. The Mission is committed to incorporating lessons learned and best practice into strategic planning and project design.

The Mission will strive to meet the requirements for high-quality evaluations and USAID Forward targets. The M&E system, combined with the new and more focused approaches, will ensure that all stakeholders will play a role in M&E and that programs are designed and informed based on lessons learned and best practices. In line with USAID Forward, the Mission will work to involve local partners and experts in playing a role in M&E. This will include integrating local polling agencies, the National Statistical Service and social research organizations and think tanks into the performance management process. USAID intends to partner up international expertise with local providers in order to strengthen the evaluation process and build local capacities. The Mission will ensure wide dissemination of results to maximize learning and submit reports to the Development Experience Clearinghouse. The Mission will maintain the three percent target of annual program funds to go towards evaluation and ensure five to ten percent is allocated to M&E overall.

Impact Evaluations Plans and Priority Questions

USAID/Armenia will consider conducting evaluations on its flagship programs under each DO. For DO 1, the Mission intends to conduct an evaluation of the five-year competitiveness program which is laying the foundation for the achieving the overall objective. For DO 2, the Mission will consider conducting an impact evaluation of its civil society and local governance initiatives as they will serve as the cornerstones of the results necessary in achieving the DO. For the SPO, the Mission will conduct an impact evaluation to assess progress in maternal and child health and family planning. The following table provides **high priority questions** to be addressed through evaluations and the M&E system for the strategy.

[92] Being new to USAID, the Mission anticipates that the new host of partners that will implement the CDCS will need to learn how to manage robust M&E systems.

DO 1	• Did USAID interventions in Economic Growth sector result in increased competitiveness and increased employment in targeted sectors? • Did the results of the interventions contribute to decreasing disparities in the economic situation among rural and urban populations? • Did efforts in improving business environment translate into increased investment and growth in selected sectors? • How did USAID interventions including the women's leadership program bridge the gaps in women's economic participation?
DO 2	• Is the reform process more effective (and are citizens more satisfied) in areas where there is increased civic engagement and oversight (i.e. where there is USAID assistance) as opposed to areas where the government acts on its own? • Does citizen engagement in policy formation and reform implementation translate into de-monopolization of power and less civic apathy? • To what extent have mechanisms of monitoring (both self-monitoring and civic) of USAID-supported reforms have been transferred to other areas of policymaking and implementation? • What impacts has USAID's new approach been on the gender gaps in political leadership and civic participation?
SPO	• How did the strengthened human and institutional capacity translate into improved quality and utilization of selected healthcare services in priority areas? • What improvements in quality and utilization in the three priority areas is reasonably attributable to USAID assistance? • How effective was the USAID's move from international providers of technical assistance to local implementing partners? • What legacy organizations will likely help sustain the investments made by USAID during its 20+ years of health sector strengthening?

SECTION 5: APPENDICES

APPENDIX A: REFERENCES

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Mid-term Evaluation - Civil Society and Local Government Support Program, 2013
Final Evaluation - Pension and Labor Market Reform Project, 2013

Appendix B: Illustrative Indicators

Goal: A more engaged, prosperous, and well-governed Armenian society.			
Indicator	*Source*	*Baseline*	*Illustrative Target 2017*
GNI per capita (PPP)			
USAID MCP Democracy and Economic Reform Scores	*USAID E&E*		
Unemployment rate	*ILO*		
Civic outlook and engagement	*Caucasus Barometer*		
Tax to GDP ratio			
DO 1: More inclusive and sustainable economic growth[93]			
Indicator	*Source*	*Baseline*	*Illustrative Target 2017*
Context indicators			
World Economic Forum's Global Competitiveness Rankings			
World Bank's Doing Business			
EBRD transition indicator			
GDP stability			
Income and/or consumption inequalities – urban-rural			
DO Level Indicator			
GDP growth to employment generation ratio			
Increase in share of GDP of diversified set of industries and/or diversification of export products and/or partners			
Share of GDP from export-based growth			
Increased value-add in domestic industries			
Increased FDI			
SME-led growth			
GDP per unit of energy use			
Electric power transmission and distribution of losses as % of electricity output			
Number of SMEs reporting improved business environment	WB Doing Business		
IR 1.1 Improved business environment for trade and investment			
World Economic Forum's Goods Market Efficiency Index Doing Business: Trading across border score			
World Economic Forum's Availability of Financial Services Index	WEF	76	65

[93] Indicators provided are illustrative and largely contextual. USAID/Armenia will fine-tune and narrow down appropriate indicators for the PMP.

Number of stakeholder/advocacy groups engaged in Public Private Dialog on tax policy and administration	TRP	2	20
World Economic Forum's Availability of Financial Services Index	WEF	76	65
Sub IR 1.1.1 Policy, regulatory and administrative barriers to doing business decreased			
Number of commercial laws/regulations simplified and implemented in accordance with international standards			
Doing Business: Time Spent on paying Taxes (hours per year)	WB	380	300
% of all tax appeals cases resolved by the MoF Appeals Unit	MOF		50%
SUB IR 1.1.2 Access to finance and competitiveness of financial markets increased			
Number of new issues of securities (debt or equity) on capital markets	NASDAQ/OMX	0	15
World Economic Forum's Ease of Access to Loans	WEF	69	65
Sub IR 1.1.3 More strategic management of energy and water resources			
Number of legal and normative documents supporting investment in energy sector and regional integration			
Number of institutions with increased capacities though participation in river basin management planning process (RBMP).			
FDI to GDP ratio			
Sub IR 1.1.4 Access to finance increased			
Credit to GDP ratio			
IR 1.2 Increased Competitiveness of Key Sectors			
Number of jobs created			
Sub IR 1.2.1 Access to domestic and export markets increased			
Agriculture value added (% of GDP)			
Level of domestic and export sales in assisted sectors			
Export share to GDP			
Level of revenue generated by assisted companies in rural communities;			
Number of new competitive rural product brands developed			
Sub IR 1.2.2 Workforce improved to meet market demand			
Number of new skill building programs introduced			
# of University linkages established, education programs revised/updated/introduced			
Sub IR 1.2.3. Productivity and sophistication of enterprises strengthened			
Number of companies investing in improved technologies			
DO 2: More participatory, effective and accountable governance			

Indicator	*Source*	*Baseline*	*Illustrative Target 2017*
Context indicators			
Freedom House, *Nations in Transit, Democracy Overall Score*	Publicly available	5.39/7.0(2012)	
USAID, *E&E NGO Sustainability Index*, Overall Sustainability Score	Publicly available	4.0/7.0 (2011)	
Transparency International, *Corruption Perception Index*	Publicly available	34/100 (2012)	
World Bank, *Governance Matters, Control of Corruption Indicator*	Publicly available	-0.58 (2012)	
DO Level Indicator			
World Bank, *Governance Matters, Voice and Accountability Indicator*	Publicly available	-0.75 (2012)	
World Bank, *Governance Matters, Government Effectiveness Indicator*	Publicly available	-0.09 (2012)	
Freedom House, *Nations in Transit, National Democratic Governance Score*	Publicly available	5.75 (2012)	
Freedom House, *Nations in Transit, Local Democratic Governance Score*	Publicly available	5.75 (2012)	
IR 2.1 Increased civic engagement in and oversight of reforms			
% of citizens reporting their input matters for reform implementation	Sample population survey	TBD 2013 baseline from survey	
# of policies changed consistent with NGO engagement and oversight	Implementer data	TBD	
Sub-IR 2.1.1 Civil society's ability to engage citizens and articulate their interests improved and sustained			
USAID, E&E NGO Sustainability Index, Advocacy Score	Publicly available	3.4 (2011)	
# of advocacy initiatives carried out by target NGOs based on constituency needs/interests	Implementer data	TBD	
% of population supportive of reforms targeted by NGOs	Sample population survey	TBD 2013 baseline from survey	
E&E NGO Sustainability Index Legal Environment Score Organizational Capacity Score Financial Viability Score	Publicly available	(2011) 3.9 3.9 5.2	
# of target NGOs with increased % amount of revenues from local sources, including self-generated income	Implementer data	TBD	
Sub-IR 2.1.2 Mechanisms for civic monitoring of government institutions, officials, and policy process strengthened			
# of new civil society-initiated mechanisms established for civic monitoring of government institutions, officials, and policy process	Implementer data	TBD	
% of stakeholders reporting effectiveness of mechanisms to monitor target government institutions, officials and policy process	Survey study of stakeholders in target reform areas	TBD 2013 baseline from survey	
% of citizens engaged in monitoring of policy processes	Sample population survey	TBD 2013 baseline from survey	
Sub-IR 2.1.3 Citizens access to independent and reliable information increased			
IREX, E&E Media Sustainability Index, Plurality of News Sources (The ratings are based on a scale of 0 to 4, with 0	Publicly available	2.08 (2012)	

representing the lowest level of sustainability and 4 the highest)			
# of targeted issues receiving heightened public/media attention	Implementer data	TBD	
Improved scores from a content analysis of news reports published by target media	Implementer data	TBD	
IR 2.2 More open and responsive policymaking and implementation			
% of citizens who believe government has transparent, participatory, effective and inclusive policy making and implementation processes	Sample population survey	TBD 2013 baseline from survey	
# of stakeholder consultation and feedback occurrences on target reforms	Implementer data	TBD	
Target reforms passed and effectively implemented	Reform-specific milestones	TBD	
Sub-IR 2.2.1 Government policy process more transparent and participatory			
# of target public institutions employing established civic participation mechanisms	Implementer data	TBD 2013 baseline from survey	
# of well publicized policy meetings open to citizens and citizen groups	Implementer data	TBD	
# of meetings of joint policy commissions between government and representatives of coalition NGOs on target reforms	Implementer data	TBD	
Sub-IR 2.2.2 Technical capacity to implement national and monitor reforms strengthened			
Improved scores for technical and institutional capacity of target government institutions to pass and implement reforms	Expert-led scorecard assessment	TBD	
% of policymakers who say they have sufficient information, knowledge and skills to implement decisions in target reform areas	Survey study of stakeholders in target reform areas	TBD	
# of government-initiated mechanisms to monitor progress and impact of target reforms established	Implementer data	TBD	
% of government staff reporting there are adequate mechanisms to monitor implementation and impact of target reforms	Survey study of stakeholders in target reform areas	TBD	
# of corrective policy changes resulting from findings of established monitoring mechanisms	Implementer data	TBD	
Sub-IR 2.2.3 Municipal capacity, service delivery and participatory decision-making strengthened			
# of target local governments with active programs for public participation in decision-making	Implementer data	TBD	
% of citizens in target communities showing confidence in their local governments	Survey study in target communities	TBD 2013 baseline from survey	
% of locally generated revenue retained locally	Implementer data	TBD	
SPO: QUALITY AND UTILIZATION OF SELECTED HEALTHCARE SERVICES IMPROVED IN PRIORITY AREAS			
Indicator	*Source*	*Baseline*	*Illustrative Target 2017*
CONTEXT INDICATORS			
Expenditure on health as % of public spending	National Statistical Service (NSS)		
Public spending on health as % of GDP	NSS		
Out of pocket expenditures as percent of total health expenditures	National Health Accounts Survey		

Life expectancy at birth	NSS		
Maternal Mortality Rate	NSS		
TB incidence rate	WHO Global TB report; National Tuberculosis Program (NTP)		
TB prevalence rate	WHO Global TB report; National Tuberculosis Program (NTP)		
MDR-TB rate among new cases	WHO/IUATLD Global Project on Anti-tuberculosis Drug Resistance Surveillance		
SPO Level Indicator			
Under-5 Mortality Rate	ADHS, NSS		
Neonatal Mortality Rate	ADHS, NSS		
MDR-TB rate among retreated cases	WHO/IUATLD Global Project on Anti-tuberculosis Drug Resistance Surveillance		
Prevalence of stunted children under five years of age	ADHS		
SPO: *QUALITY AND UTILIZATION OF SELECTED HEALTHCARE SERVICES INCREASED IN PRIORITY HEALTH AREAS*			
Utilization of preventive MCH services	MIDAS		
Modern method contraceptive prevalence rate (MCPR)	ADHS		
Percent of registered new smear positive pulmonary TB cases that were cured and completed treatment under DOTS nationally (Treatment Success Rate)	NTP		
IR 1: *HEALTH RESOURCES MORE EFFECTIVELY TARGETED TO MEET PRIORITY AREAS*			
Enrollment-based financing scheme is implemented	Ministry of Health/State Health Agency		
Performance-based payment is implemented	Ministry of Health/State Health Agency		
Financing of TB services do not incentivize hospitalization	Ministry of Health/State Health Agency		
GOAM finances contraceptive procurement from the State budget			
IR 2: *GOVERNMENT OF ARMENIA AND NGO CAPACITY TO DELIVER QUALITY SERVICES IN PRIORITY HEALTH AREAS IMPROVED*			
Percent of health facilities adhering to Evidence-Based MCH approaches	Ministry of Health/State Health Agency		
Percent of Family Doctors providing family planning (FP)	Ministry of Health/State		

counseling services	Health Agency		
Percent of health facilities adhering to the components of the WHO Stop TB Strategy	NTP		
IR 3: *PUBLIC HEALTH SURVEILLANCE IN PRIORITY AREAS IMPROVED*			
Percent of facilities using data to improve MCH care	Ministry of Health/National Institute of Health		
Percent of facilities using data to improve TB care	Ministry of Health/National Institute of Health		
Percent of children under five that had child growth monitoring during the well-child check-up.	MIDAS		
GENDER			
Proportion of female participants in USG-assisted programs designed to increase access to productive economic resources			
Proportion of target population reporting increased agreement with the concept that males and females should have equal access to social, economic, and political opportunities			
Number of people reached by a USG funded intervention providing GBV services (e.g. health, legal, psychosocial counseling, shelters, hotlines, other)			

APPENDIX C: KEY DONORS AND INPUT FROM CDCS CONSULTATIONS

- **International Monetary Fund (IMF):** Armenia joined the IMF in 1992. In mid-2010, Armenia signed a three-year USD 395 million program under the Extended Fund Facility and Extended Credit Facility. USAID and the IMF have worked together on improving the banking sector, assisting the government on tax policy and administration, strengthening regulation in the financial sector. In CDCS consultations, the IMF pointed out: agriculture has potential to grow but will not be the engine of growth in the economy; priority should be on workforce development where the greatest impact could be made; and corruption and the lack of competition are key issues; with government "state capture" it makes sense to focus on the next generation and youth.
- **European Union (EU):** EU assistance to Armenia is growing. Based on a "more for more" approach in which direct budget support is provided on the basis of progress in reform implementation, the EU disbursed a range of $16m-$39m in assistance per annum since 2006. The EU's overall objective is to support Armenian national priorities in line with EU standards and best practices. Armenia benefits from the European Neighborhood & Partnership Instrument (ENPI) with a financial envelope under the 2011-2013 National Indicative Program of €157.3 million (around $200m). Priority areas are democratic structures and good governance, trade and investment, as well as socio-economic reform and sustainable development. The GOAM is currently halfway through negotiations for an Assistance Agreement, while negotiations on a Deep and Comprehensive Trade Agreement are on the horizon this year. In CDCS consultations, the EU Representative pointed out that greater coordination could lead to better leverage with the government.
- **World Bank (WB):** Since joining the WB in 1992, Armenia has received financing of USD 1.5 billion for about 70 projects. About one quarter of the WB's commitments have been in rural roads rehabilitation. The WB is currently developing a new country strategy for 2014-2017. The WB's lending volume for 2012 was $126 million with major projects in energy efficiency, tax, municipal water, health systems, access to finance, electricity supply, innovation, rural road improvements, rural infrastructure, public sector support, agriculture, and irrigation. In CDCS consultations, the WB highlighted: the importance of leveraging each other's efforts; government commitment is a key issue for the WB's new strategy; need for a new compact on anti-corruption; need to increase the demand-side pressure for accountability; and rural development is critical to addressing poverty; and the issue in health is non-communicable disease.
- **European Bank for Reconstruction and Development (EBRD):** EBRD is the largest investor in the private enterprise and financial sectors in Armenia. Through its 107 projects with a value of 270 million Euros to date, EBRD provides finance to a variety of sectors including: banking (46%); municipal and environmental infrastructure (19%); enterprise support (21%); and energy efficiency and renewable energy (18%). The priorities of its current strategy are: extending credit to SMEs in rural areas and developing agricultural loans; involving the private sector in water management and improve urban transport systems; supporting agribusiness and value-add industries with export potential; and investments in renewable energy, power generation, and mining operations with investors.
- **Asian Development Bank (ADB):** Armenia joined the ADB in 2005. ADB has approved 13 loan programs as of 2012 in transport and ICT, finance, water supply, and multi-sectoral areas totaling a commitment of $548 million. In 2009, ADB approved a $500 million

financing facility to fund the North-South Road Corridor Investment Program. The program is being implemented in tranches. ADB also provided $40 million in financing for building a new airport in 2011.

- **German Development Agency (GIZ):** GIZ's priority areas are sustainable economic development, municipal and economic development, and legal reform. The GIZ currently has ongoing projects in: economic development, support for legal and judicial reform, promotion of municipal development, and sustainable management of biodiversity. USAID is coordinating with GIZ primarily in municipal governance and decentralization.

- **United Nations (UN):** The UN's Development Assistance Framework for 2010-2015 (UNDAF) defines the areas where the UN's collective, coherent and integrated interventions will make a significant and strategic contribution towards addressing the economic, social, governance and environmental challenges facing the country. The UNDAF Outcomes represent strategic areas of focus for development cooperation:
  - Outcome 1: Inclusive and sustainable growth is promoted by reducing disparities and expanding economic opportunities for vulnerable groups.
  - Outcome 2: Democratic governance is strengthened by improving accountability, promoting institutional and capacity development and expanding people's participation.
  - Outcome 3: Access and quality of social services is improved especially for vulnerable groups.
  - Outcome 4: Environment and disaster risk reduction is integrated into national and local development frameworks.

  The UNDAF pursues the following key priorities:
  1. Mobilize to achieve the MDGs;
  2. Provide rapid response to the crisis, in particular in the areas of social protection and employment generation;
  3. Improve quality, accessibility and affordability of health care, education and other social services;
  4. Support the implementation of the ambitious reform agenda and application of EU standards across the 3 branches of power;
  5. Promote energy efficiency, ensure low carbon path of development and strengthen capacities for disaster risk reduction;
  6. Enhance citizen participation and promote confidence building, tolerance and social inclusion.

Appendix D: Summary of Assessment Findings and Recommendations

Summary of Sector Assessments USAID/Armenia – 2010-2012		
	Findings and/or Conclusions	**Recommendations/Challenges**
Democracy, Human Rights, and Governance Assessment - July 2012	Key challenge is lack of genuine checks and balances in the system. The dearth of competition and political accountability in the system is leading to serious deficits in other areas including: consistent application of rule of law and citizens' meaningful participation in political and economic processes. Main two inter-related challenges: 1) a powerful executive that exercises almost monopolistic control of the political system, and systematically undermines institutions and agents of democratic accountability; and 2) weak institutions and agents of democratic accountability which are subservient to interests of elite. Conclusion: until issues of competition and political accountability are tackled, the system will not fundamentally change with significant advances in inclusion, rule of law, and government effectiveness.	Broad range of activities could be targeted, however in order to strengthen focus and achieve greater impact, focus on reform areas where a consensus is emerging. Recommendation: • strengthen the institutions and agents of democratic accountability by enhancing capacity, coordination, and networking among pro-democracy forces; • promoting the flow of information and transparency on governance issues; and • building capacity and enhancing the effectiveness of accountability institutions, both governmental and non-governmental and at national and local levels. Priority recommendations: 1) develop a more active, informed civil society (including media) able to participate and exercise oversight; and 2) strengthen democratic local self-governance. Secondary recommendations: 1) responsive judiciary; 2) enhanced debate, political and electoral processes.
Economic Growth Assessment July 2012	Despite years of impressive growth, Armenia is not on a trajectory for generating employment and reducing poverty. In benchmarking Armenia among other countries of similar size and with similar constraints: • Armenia lags most in macroeconomic reforms and corruption; • has low export to GDP ratio; • has a relatively strong and stable banking sector with low levels of domestic lending; • employment is low and poverty headcount relatively high; • FDI is moderate but concentrated in a few sectors; • Strengths are its human resources and potential for innovation. Major constraints on growth are: lack of competition; regional disparities; large informal sector; weak implementation of legal framework; and limited industry roles	Main recommendations to increase economic growth and employment: • develop and diversify competitive export industries (with a target of increasing exports to GDP ratio from 20- 40%); • promote regional investment in order to reduce income inequalities; • formalize the economy; • develop policy reform momentum; Secondary recommendations: • enhance Armenia's workforce; • improve agricultural potential and its links with processed food/beverage; • integrate financial markets to longer term development process • stimulate technology development through FDI • promote entrepreneurship and innovation through R&D and enhanced management • support women's participation in economy;

Demographic and Health Survey 2010	Key Findings: Progress in health outcomes: • Infant mortality has been halved since 2005; dropping from 26-13 deaths per 1,000 births • Increase from 74% to 87% of children 18-29 months being fully vaccinated (WHO recommended plus hepatitis) • 99% of women receive antenatal care from a skilled provided and almost all deliveries are in hospital • Informal payments for child delivery decreased from 82%-8% after introduction of state vouchers for free delivery care • Up from 20% in 2005, more than a quarter are using modern family planning methods; • Abortions have decreased from 45% to 29%	Remaining challenges in health outcomes: • The under-5 mortality rate decreased from 30 to 16 per 1,000 live birth since 2005; but remains above the MDG target of 8 by 2015; • Low fertility rate of 1.7 children and total abortion rate is .8 • Armenia is among top ten countries with MDR-TB; 9% according to 2008 WHO global survey; • 19 percent of children were stunted, and 8 percent severely stunted. Stunting appears to be more common among children born to mothers with less education, and is only "slightly" more prevalent in rural households compared to urban ones. Stunting is lowest in Yerevan (11 percent), and highest in Syunik (36 percent), Aragatsotn (32 percent), and Ararat (29 percent). • 4% of children under five years old are wasted. Babies up to 6 months old are more likely to be wasted than children age 6-59 months. Wasting is highest in the Ararat region (12 percent), followed by Gegharkunik (7 percent);

APPENDIX E: UPDATE OF USAID/ARMENIA 2010 GENDER ASSESSMENT

January 2013

Background

Pursuant to requirements of the 2012 USAID Gender Equality and Female Empowerment Policy, the USAID/Armenia Mission conducted a gender analysis in the context of country strategic planning being done under the Country Development Cooperation Strategy (CDCS). The analysis is presented in the form of an update to the comprehensive 2010 Gender Assessment.

Overall, many of the trends and realities described in the Gender Assessment still hold true. This update provides updated statistics in the areas where USAID/Armenia works, outcomes of sector assessments conducted for CDCS, notable policy/legal changes and any new initiatives from the donor community.

A desk research along with consultations with donor community representatives served as a basis for the methodology of this update. Major data sources were Men and Women of Armenia annual publication, major international sources such as the World Development Report, the Human Development Report and several surveys conducted in Armenia either through international or local organizations and the National Statistical Service of Armenia.

Donor Engagement in Gender

Major directions in donor involvement in gender have not changed since the last Gender Assessment of 2010. One notable change is the involvement of the Asian Development Bank which is planning to launch a Women's Entrepreneurship Support Program to support access to finance for women, as well as improved institutional framework and increased capacity of women entrepreneurs. The Bank has about 20 million USD available for this project. The project is currently in the process of negotiation with the GOAM and with financial institutions to be launched shortly.

UNDP continues its project on women in local democracy. The overarching goal of the Project is to support the advancement of gender equality, building parity democracy, and improving social cohesion in Armenia at the local level. Activities include capacity building for women interested in running for local elections, working with local authorities to raise their awareness on participatory and gender-sensitive governance, and working with the civil society and the media to engage in dialogue and to promote non-stereotyped portrayal of women and men.

OSCE continues supporting The Syunik Women's Resource Centers Network which serves the local communities as a nexus for initiating and supporting community development. The goal of these centers is to serve as open space for local women and provide resources to help them start businesses. Besides offering trainings and consultations, the centers conduct different surveys and assessments, arrange contacts with various agencies and provide a variety of low cost services to local women. Since 2008, the OSCE has been sponsoring the Na/Ne Annual Media Awards given out for the best coverage of gender issues.

Open Society Institute continues funding local NGOs through its civil society and women's programming, with the main focus being providing services for the victims of GBV, raising public awareness on gender equality and women's rights, and on women's engagement in public policy.

Gender Updated Statistics and Trends

Aside from a number of surveys cited in this update, a major source of the statistics has been Men and Women in Armenia, an annual publication by the National Statistical Service of Armenia. The latest version available for this update was year 2011.

USAID Monitoring Country Progress: According to the Gap Analysis conducted by USAID/E&E Bureau in March 2012, gender inequality is greater in Armenia than it is in most E&E countries, though gender inequality in the E&E region is lower than it is in most of the developing world. Per capita income in Armenia is below Eurasian average.

Life expectancy for both males and females is higher in Armenia than among all other Eurasian countries, and the life expectancy gender gap (female minus male life expectancy), at six years, is among the lowest of the twelve countries; only in Azerbaijan, at five years, is it lower.

One component of the MCP human capital index is a measure of gender inequality drawn from the UNDP's *Human Development Report*[94]. This measure is an index in itself and has three dimensions: reproductive health (maternal mortality rate and adolescent fertility rate); political empowerment (share of parliamentary seats held by each sex); and labor market participation (attainment of secondary and higher education by each sex, and labor market participation rate by each sex). By this measure, all of the twenty-one E&E countries score roughly equal to or better than the global average of gender inequality; i.e., gender inequality in E&E is lower than global standards. However, seven of the nine Eurasian countries lag considerably behind the rest of E&E in the sample. Armenia is one of the laggards; of the E&E countries only in Georgia, Tajikistan and Kyrgyzstan is gender inequality greater.

Global Gender Gap Index: Initiated in 2006, the World Economic Forum benchmarks national gender gaps in 135 countries in the areas of economic participation and opportunity, educational attainment, health and survival, and political empowerment. In 2012, Armenia was ranked 92nd out of 135 countries with a score of 0.664 on a scale of 0.0 as inequality and 1.00 as equality. Armenia's rank and score has weakened overall since 2007 mainly due to lower scores in the area of economic participation. Armenia's weakest dimensions within the sub index are in the estimated earned income and women as legislators, senior officials, and managers. Armenia scores very high in educational attainment with a rank of 25th and an almost perfect equality score[95]. Its weakest score is in the area of health and survival due to a very poor score on sex ratio at birth. This indicates a strong and perhaps growing preference for boys. Scores in the area of political empowerment have improved over time however only slightly with a small number of women represented in Parliament and Ministries.

Gender Legislation and Gender Machinery

Two draft laws related to gender issues are currently in the works. The law on "Equal rights and equal opportunities of men and women" has passed its first hearing at the National Parliament. Before its hearings at the Parliament the draft law received 49 suggestions for

[94] Human Development Report 2011, United Nations Development Program
[95] The Global Gender Gap Report, 2012, World Economic Forum

improvement from the civil society as a result of public discussions. Only seven of these 49 suggestions were accepted. According to the civil society representatives those suggested changes that included implementation mechanisms and made the law more actionable, were rejected by the government. As a result the law lacks many important implementation mechanisms and is more of a declarative nature, limiting its ability to result in real changes.

The law on Domestic Violence was drafted by a working group comprised of government representatives, NGOs and international experts. Even though Armenia has committed itself to have such a law in a number of documents concerning European integration and Human Rights issues, the draft law was rejected by the Government. The argument is that it is not necessary to have a separate law, and that the three components of the law (public awareness, social assistance and punishment of proprietors) can be dealt with through other laws. The NGO's and the international community argue that even though such an approach is also applied in some countries, it is not very useful for Armenia for several reasons. First, because Armenia has already committed to having a separate law, and secondly because having a separate law is the best public awareness tool and brings more attention to the issue. The NGO community is currently seeking for ways to defend the approach of having a separate law on Domestic Violence.

Some changes have been introduced in the work of the Women's Council under the Prime Minister to make it more practical. One of the new functions is providing expert opinion on legal drafts and on programs presented to the government. The Council now has the mandate of reviewing these documents from gender equality perspective. Even though the function is established by the Decree of the Prime Minister, the actual implementation of such expert review and the capacity of the Council to conduct such review is still questionable as the Council does not have permanent staff. Another function of the Council is to cooperate and network with the existing women NGO's, however there is skepticism among the NGO's over the ability and the willingness of the Council to work with them.

USAID's Women Leadership Program

USAID/Armenia signed an associate agreement with American Council on Education/Higher Education Development Program under a Leader award to establish a three-year higher education partnership between Arizona State University (ASU) and Yerevan State University (YSU). Through formal and non-formal education, applied research, and institutional capacity building activities, the partnership established through WLP-Armenia will help university women move into careers that will offer the potential for upward mobility and leadership roles in the public and private sectors in Armenia. The project has four objectives:

- Enhance students' knowledge and skills and broaden attitudes related to women's leadership and options for career advancement.
- Strengthen the capacity of Yerevan State University to make research-based recommendations, with an emphasis on putting into practice national gender policy.
- Develop Yerevan State University's capacity to deliver coursework that addresses women's leadership and gender equality.
- Promote women's leadership and gender equality through extension/outreach efforts at Yerevan State University.

Gender Considerations – USAID/Armenia CDCS Results Framework

Economic Growth

Women make up 52% of Armenia's population. Women constitute 52.8% of the students of the higher education system. While they are highly educated and active members of civil society, women constitute only 10.6% of the Armenian parliament and have low numbers in positions of authority within government structures and businesses. The share of women in wage employment in the non-agricultural segment has steadily declined from 51.8% in 1996 to 43.1% in 2009. In 2010 the percentage slightly increased reaching 46%. Of the total female population only 41% are employed compared with 60% of the male population. The Demographic and Health Survey data on employment suggest that 35% of the women aged 15-49 were employed compared with 74% of men. Segregation in the labor market means that women tend to work in lower-paid sectors (horizontal segregation) and positions (vertical segregation) and are usually paid less than men, while very low numbers of women own or manage a business in Armenia. The average monthly salary in 2010 was 80,000 AMD for women, and 12,5000 AMD for men. This trend holds true for all sectors, even in the education and health sectors, which are traditionally considered women-dominated. In the higher education system 54.1% of the teaching personnel is women, however of the 91 total positions of rectors and vice rectors nationwide only 11 (12%) are women. Among 135 dean positions nationwide only 19 (14%) are women.

Nearly thirty-one percent of the households in Armenia are headed by women. When looking at statistics and comparing the situation of women-headed households with the situation of men-headed households there are large disparities in terms of income. The average monthly income per person in women-headed households is 26,000 AMD among the urban population and 19,000AMD among the rural population. For comparison, the respective numbers in men-headed households is 48,000AMD in urban areas and 30,000 AMD in rural areas. The average monthly salary calculated per person in women-headed households is 9,400 AMD compared with 25,500 AMD in men-headed households. Obviously, living in a woman-headed household is a risk factor for poverty, especially in the rural regions. This is a major issue given the situation with out-migration of men and leaving women behind to take care of the families. There is anecdotal evidence that this situation also results in keeping older children out of school in rural areas, so that they can work and contribute to the family income[96].

According to a 2012 Grant Thornton Business Report women in Armenia occupy 27% of senior management positions in businesses. This might seem like a fairly high percentage demonstrating that women in Armenia are well represented in leadership positions. However, further analysis shows that those senior positions are in Human Resource Management (27%) and in Finance Management (25%)[97]. Clearly this is a trend coming from the Soviet times, when it was very common for companies to have a female Chief Accountant and an HR manager. Although considered senior management, these positions are not in charge of making strategic or programmatic decisions for a company and are viewed as primarily support functions.

[96] Men and Women in Armenia, 2011, National Statistical Service of Republic of Armenia
[97] Grant Thornton International Business Report, 2012, http://www.internationalbusinessreport.com/

A UNFPA Survey on women's economic and political participation conducted in 2010[98] found that when asked whether or not family is a barrier to women's involvement in business or in politics, men were less likely to agree with that statement than women. Interestingly, it seems that women often try to find justification for their inactivity in family reasons. This may be a window of opportunity for working with women and helping them see how family duties and career can be combined. Forty-six percent of those surveyed thought that there was discrimination against women in Armenia. There were differences in answers to this question depending on the employment status. Among the employed 45.5% thought there was discrimination, and among the unemployed 53.6% thought there was discrimination. The unemployed are probably more likely to face discrimination in real life situations.

The Demographic and Health Survey of 2010 touched upon women's empowerment characteristics[99]. More than 82% of women report that they have sole or joint decision-making power over major decisions affecting their lives. Women's decision-making power varies by geographic region with women in Armavir and Aragatsotn being less likely to participate in household decisions, compared with women in all of the other regions. In terms of control over cash earnings, 69% of women indicated that the decision is made jointly with their husbands, and only 3% of the women said that the decision is made by their husbands only. The decision making alone by women on the use of their cash earnings increases with age, with the level of education and with the increase of level of wealth. It also varies greatly geographically. In terms of ownership of assets 72% of women owned a house either alone or jointly. For comparison, 79% of men own a house either alone or jointly. Both men and women are less likely to own land compared to owning a house. Thirty-nine percent of both women and men own land either alone or jointly. Land ownership decreases with level of education and with increased level of wealth.

A recent assessment of the gender situation in the value chains where USAID/Armenia works in did not reveal any unexpected results. Much like in the past one value chain in which women clearly dominate is hospitality. No formal study has been done to understand why this is the case. While women entrepreneurs in general face difficulties, the situation in the hospitality sector indicates that specific factors such as ease of networking and marketing, flexible hours, absence of domination by large businesses that makes the hospitality value chain attractive to women. A more thorough analysis might help reveal these factors and use them in other sectors where applicable, such as flexible hours or ability to work from home.

Democracy and Governance

In May 2012 national elections of the Armenian National Parliament took place. According to the new Election Law, the quota for women's representation in party lists must be no less than 20%, as opposed to the previously mandated quota of 15%. Additionally the law required that the women be distributed evenly within the list through so-called zebra principle. While the party lists did comply with the requirements of the law, the current Parliament in the end has only 14 female members, or 10.6% of the total number of the Parliament members. For comparison, the previous Parliament was represented by 9% of women. The main reason such

[98] Gender Dimensions of Civic and Political Participation in Armenia, Yerevan, 2011
[99] Demographic and Health Survey 2010, Armenia

a low number of women MPs is the resignation of women who won list-designated seats in parliament, who were then replaced by men.

The situation with involvement of women in the highest posts of civil service has not changed in the last two years. Ninety percent of the highest posts are held by men. Further down, among different ministries' staff the distribution is more or less even. Ministries differ in terms of sex distribution of staff, with some dominated by men and others are dominated by women. The most male dominated ministry is the Ministry of Agriculture (73% male), followed by the Ministry of Transport and Communications (69%) and the Ministry of Emergency Situations (65%). The most female-dominated ministries are the Ministry of Education (67% female), followed by the Ministry of Diaspora (62%) and the Ministry of Health (59%). Among the President of Armenia staff and the Government of Armenia staff, about 39% are women. At the marz level there are no female marzpets (governors), and there is one female deputy marzpet and two chiefs of staff in two marzpetarans (provincial governments). Armavir marz (province) has both a deputy marzpet and the chief of staff, both of whom are women. No mayors of urban communities are women, and only one urban community has a woman deputy mayor. In rural communities twenty-four women are mayors[3].

UNFPA in cooperation with Caucasus Sociological Research Center conducted a household survey in October-December 2010 to understand the perceptions and the actual participation of men and women in political and social processes in Armenia[5]. The survey found that about 2/3 of the population think men have an advantage over women in career advancement in Armenia. Public opinion is slightly more accepting of women involved in business than of women involved in politics. Forty-four percent of respondents thought for a woman to be involved in politics, something must be wrong in her personal life, while only 37% thought for a woman to be involved in business implied something was amiss in her personal life. Sixty-seven percent thought that the successful career of a woman has positive impact on the social acceptability and the image of her family.

The Armenian broadcast media continues to promote the stereotypical image of women. Many stakeholders, including governmental and civil society representatives mentioned the negative role of the TV in promoting the stereotypes and particularly in promoting violence against women. This is done primarily through popular soap operas aired at prime time. The coalition of NGOs working on preventing gender-based violence has voiced its concerns and has attempted to organize public events to bring attention to the issue. However since the TV companies are private companies there is little effect on the content of the programs aired by them.

A study supported by UNFPA[100] examined the women's image as portrayed by the Armenian media and whether the media contributed to deepening distrust toward women's participation in political and decision-making activities. Six periodicals were monitored during the period of March 1 – June 1, 2011. The study found that 86% of people represented by the media were men. Newsmakers and privileged speakers were mostly men, with a 6:1 proportion compared to women. Expert opinion was also dominated by men with 8 out of 9 experts being men. 11% of the publications referring to women portray them as victims, including victims of accidents, domestic violence or violence in public places.

[100] Women's Image in Armenian Media, Yerevan, 2011

Health and Social Protection

The majority of the beneficiaries in state and non-state institutions for the disabled and the elderly are women (59.2%). A large part of them are people under 50 (around 30%). In general there are more men than women in first and second degree disability groups according to the official statistics (59% in first group and 56.3% in the second group). There are about equal number of women and men in the third degree disability group. In the childhood disability group there is a large difference between girls and boys, with percentage of disabled girls being much lower (31.4%)[3]. This may be associated with under-reporting of the number of disabled girls associated with stigma of having a disabled female child in the family. The disparity between girls' and boys' disability is particularly large in Gegharkunik and in Aragatsotn marzes, where less than 30% of registered disabled children are girls.

The majority of pensioners in Armenia remain women, with about 60% of the total number of pensioners being women. This trend holds true for all age categories, except for the youngest age group of under 51 years. Obviously this age group is not associated with retirement age. In the elderly age group the percentage of women pensioners is even slightly higher than 60%.

The situation with access to primary health care has not changed in the sense that women are still more likely to use polyclinic or ambulatory services than men. According to DHS 58% of women have chosen a primary doctor through the open enrollment program, and only 38% of men have done so. About 25% of women and 15% of men perceived a need to seek care at a primary healthcare facility.

Life expectancy at birth is 73.5 years. The difference between life expectancy of men and women is still large – for men it is 69.9 years, and for women it is 77.6 years. One important contributing factor for the difference is the differences in tobacco use – 2% of women use tobacco, compared with more than 60% of men using tobacco.

The ability of women to make decisions that affect the circumstances of their own lives is a key aspect of empowerment. According to the Demographic and Health Survey more than nine in ten women have a say in the decisions about their own healthcare, or visits to their family and friends. 86% participate in decisions about making major household purchases. Only 3% of women have no say in any of the three decisions. Acceptance of wife-beating is lower among women compared with men. 9% of women agree that a husband is justified in hitting or beating his wife for specific reasons. The most common reason justifying wife-beating is neglecting the children (7%). For comparison, 20% of men think that wife-beating is justified. The most common reason for justifying wife beating among men is arguing with him (17%) followed by neglecting children (13%).

The issue of sex-selective abortions has become an issue of public debate recently. A study conducted in 2012[101] showed that while the sex ratio at birth for the first and second children in Armenian families was close to the natural ratio - 1.03 and 1.02, respectively, the sex ratio at birth for the third and the fourth child was 1.5 and 1.7 respectively, differing considerably from the natural ratio for births of both sexes. Son preference was about 2.7 times higher among surveyed women, regardless of the number of pregnancies the woman had had. The sex ratio is particularly high among urban women reaching 3.3 in the case of the fourth child.

[101] Prevalence of and Reasons for Sex-Selective Abortions in Armenia, Yerevan, 2012

Correlation was observed between women's income and a greater predominance of boys. In particular, in comparison with low-income women, in the case of women with a monthly income of 100,000 AMD or more, the sex ratio at birth among the first and second children was 1.22 and 1.33 respectively, while among the fourth and fifth children the predominance of boys became unprecedented, with the sex ratio being 8.2 and 7.6 respectively.

Domestic Violence

In 2011-2012 USAID funded a project called Women's Support Center. This project's overall goal was to treat and prevent domestic violence in families, specifically in Yerevan's Shengavit district through direct provision of services and implementing public awareness raising activities.

Another activity targeting the issue of domestic violence is supporting the Government of Armenia's efforts to enhance the quality of services provided to women victims of domestic violence. The project will do an assessment of services conducted by the Ministry of Labor and Social Affairs that will provide recommendations for specific interventions under this program. The project's intended results will ensure availability and accessibility of services to victims of domestic violence by addressing inefficiencies in provided services. The project will target urban-rural disparities, reduce possible obstacles for their use, and build the capacity of service providers, and will put special emphasis on better coordination of services available under various governmental structures and non-governmental organizations.

Recommendations

Most of the Recommendations contained in the 2010 Gender Assessment are still valid. Below are some new recommendations based on the new data used for this Gender Update.

1. Consider the issue of poverty of women-headed households, and design interventions so that they address the disparity especially within the scope of programs targeting regions outside of Yerevan
2. Work with women entrepreneurs and create active links with the Asian Development Bank to utilize the loans available for women from ADB
3. Work with YSU and the Women's Leadership Program to create links between the WLP and other programs working on women's empowerment to have a better coordinated effort toward similar goals and objectives
4. Work with respective Parliamentary Committees to increase understanding of importance of pending laws on Gender Equality and on Gender-based Violence
5. Continue work with local level governments and communities to increase women's involvement in local level decision-making bodies and processes
6. When designing health programs consider the issue of sex-selective abortions and address it through family planning and MCH activities

APPENDIX F: HIGHLIGHTS OF MCP GAP ANALYSIS

Europe and Eurasia Bureau, USAID

Strategic Planning and Analysis Division

April 2012 Highlights

Development Profile (Figures 1-4). Armenia is more advanced than the twelve-country Eurasian norm in all five development dimensions tracked by the Monitoring Country Progress (MCP) system: (1) economic reforms; (2) democratic reforms; (3) macroeconomic performance; (4) human capital; and (5) peace and security. Armenia lags the most in democratic reforms and is relatively more advanced in the economic sector. Still, progress in the economic sector (economic reforms and economic performance) as well as in human capital in Armenia is very uneven; very good progress in some dimensions (including trade liberalization, large-scale privatization, economic growth, private sector share of GDP, life expectancy, and environmental health), with very little progress in others (including non-bank financial reforms, export sector competitiveness, unemployment, per capita income, and public spending on health and education).

Economic Reforms (Figures 2, 5-8). Armenia's progress in economic reforms is closer to the Southern Tier CEE average than the Eurasian average. However, a disproportionate amount of the gains have been in first-stage reforms (trade and foreign exchange liberalization, price liberalization, and small- and large-scale privatization); second-stage reforms (infrastructure, financial sector, governance, competition policy) are only moderately more advanced than in Eurasia overall. The downturn in economic reforms in 2011 in Armenia was due to reversals in price liberalization (i.e., the levying of price controls). The business environment (or microeconomic reforms) in Armenia is very favorable, closer to the Northern Tier CEE average than to Southern Tier CEE or Eurasia.

Democratic Reforms (Figures 2, 9-11). Civil society is the leading dimension in democratic reforms in Armenia while independent media lags the most, though only slightly more than electoral process and local and national governance. Democratic reforms in Armenia have been regressing since at least 1996, first year of available data from Freedom House's region-specific *Nations in Transit* dataset. Corruption is perceived to be somewhat lower in Armenia than in Eurasia overall, in the 70th percentile globally, comparable in 2011 to that found in the Dominican Republic, Honduras, the Philippines, and Syria.

Macroeconomic Performance (Figures 3, 12-18). Significant macroeconomic performance challenges exist in the competitiveness of the export sector, the labor market (in high unemployment), energy security, and macroeconomic stability. Armenia's economy has witnessed substantial fluctuations, volatility, and vulnerability since the collapse of communism. This has included a substantial drop in output in the early years of the transition, with a quicker recovery than most of the Eurasian economies, including annual double-digit economic growth rates from 2002 to 2007, leading up to the global financial crisis. This also has included one of the most significant contractions in output during the global financial crisis in 2009 in the Eastern Europe and Eurasia (E&E) region, matched only by four other transition economies: Ukraine; Latvia; Lithuania; and Estonia. Contributing factors have included significant

macroeconomic imbalances, a small export sector dependent on minerals, metals, and semi-precious stones, and a substantial reliance on remittances. Armenia's economy is also energy insecure; namely, below global average in terms of energy efficiency, and among the most dependent on energy imports relative to usage in the E&E region.

Human Capital (Figures 3, 19-28). Human capital development in Armenia is slightly above Eurasian average, though progress in this broad dimension is quite uneven. Armenia is advanced in health outcomes by Eurasian standards while progress in education outcome is more mixed and/or uncertain. Gender inequality is greater in Armenia than it is in most E&E countries. Per capita income is below Eurasian average and public expenditures in health and education are low by any standard. The national poverty rate fell from 51% in 2001 to 24% by 2008, though increased notably in 2009 to almost 30%.

Peace and Security (Figures 3, 29, 30). Armenia is more peaceful and secure than most of the Eurasian countries, though less peaceful and secure than all of the CEE countries except Kosovo. Of the six peace and security components, Armenia lags the most in combating weapons of mass destruction and in conflict mitigation. Counter-terrorism, combating trans-national crime, and counter-narcotics are the most advanced peace and security elements in Armenia. Counterterrorism capacity has recently improved.

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APPENDIX G: HIGHLIGHTS FROM 20 YEARS OF PARTNERSHIP

USAID | ARMENIA
FROM THE AMERICAN PEOPLE

CELEBRATING 20 YEARS OF PARTNERSHIP

1988

The earthquake of December 1988 in northern Armenia, registering 6.9 on the Richter scale, takes over 25,000 lives and leaves about 500,000 Armenians homeless. The United States is among the 74 countries that respond to the disaster and provide immediate humanitarian aid.

1992

The United States opens its first embassy in Armenia. USAID starts operations in the country through a small team. A bilateral agreement on provision of U.S. humanitarian and technical economic assistance is signed in December 1992.

1992-1998

Following Armenia's independence in 1992, USAID's programs focus on humanitarian aid, emphasizing food, fuel, medicine and clothing to help Armenia cope with post-earthquake, post-war, and post-Soviet economic collapse.

1998-2005

In addition to humanitarian and direct assistance programs, USAID starts provision of more technical support and initiates local capacity building programs. USAID also launches the flagship Earthquake Zone Recovery Program, helping 7,000 quake victim families in temporary shelters finally obtain permanent housing.

2005-2012

USAID transitions from direct assistance to longer-term development initiatives that support Armenia's sustainable growth through increasing economic competitiveness, strengthening good governance, and ensuring higher quality and more accessible social and health services.

2013-2017

Moving toward sustainability, USAID/Armenia will partner directly with the Government of Armenia and local organizations in building their capacity to lead the reform agenda. The Mission will also increase strategic partnerships with the private sector, civil society, local institutions, and other donors in achieving lasting results.

OUR PROGRAMS TODAY

$26.3	5	35	11
million assistance in 2012	program areas	ongoing programs	regions including Yerevan

Since 1992, USAID has been the largest bilateral assistance donor in Armenia. The American People, through USAID, have provided about $1 billion in assistance to help Armenia transform into a more engaged, prosperous and well-governed Armenian society.

USAID is unique among donors as a source of technical assistance and well-targeted interventions in key sectors.