

## ARMENIA TACIS AP 2006

### PROJECT FICHE

Title	Support to Poverty Reduction Strategy focusing on Education (Vocational Education Training, VET) and Social Affairs (Child Care)		
Indicative cost	EC Contribution: <b>€7.5mln</b>		
Aid Method	<b>Sector Policy Support Programme – <i>centralised</i></b>		
DAC-code		Sector	Child Care
	11330		Vocational training

## 1. RATIONALE

### 1.1. Strategic framework

The Country Strategy Paper 2002-2006 and Tacis National Indicative Programme (NIP 2004-2006), in line with the Poverty Reduction Strategy Paper (PRSP) adopted in 2003 by the Government of Armenia (GoA), address alleviation of the social consequences of transition as a priority, notably through reforms in education and social protection. Cooperation between the GoA and the Commission has so far been consistent with wider PRSP objectives, in particular to strengthen Public Finance Management (PFM), support the reform of higher education and vocational education and support actions in social protection. The proposed actions under this Support Programme (SP) shall focus on further improving policy development, linking strategic objectives to Government spending in a realistic way and continuing assistance in improving the overall public expenditure management in Armenia. Work shall continue in the Vocational Education and Training (VET) area, aimed at bringing the structure and content of vocational and technical training - from elementary to advanced levels - into compliance with demands in the labour market as stipulated in the National Indicative Programme (NIP) for Armenia. Regarding social protection, this SP will continue assisting reforms in childcare and child protection, a field where the EC Food Security Programme (budget support) has been delivering key assistance since 2002 aided by a short policy advice Tacis project in 2005 entitled "Support to the Ministry of Labour and Social Affairs for the introduction and development of Policy Alternatives to Institutionalised Childcare in Armenia".

Fitting in with the current 04-06 framework, the present project, on the other hand, will ensure, from a double perspective, the transition towards the next mid-term period 07-09. From the strategic point of view, it should lay the basis for further support to the PRSP under the forthcoming European Neighbourhood and Partnership Instrument (ENPI). Regarding the aid delivery mechanism, the present project should be seen as a pilot experience towards the intended intensified use of the Support Programme (SPSP) approach under the ENPI.

Therefore, this project plays a pivotal role of articulation between the current 04 -06 and the forthcoming 07-09 perspectives, by fitting in with the former and announcing the latter.

## **1.2. Lessons learned**

The Tacis programme has been operating since 1991 in Armenia, for a total budget of more than €100m. Among other interventions, Tacis has supported the sector of education in Armenia by helping the GoA develop a policy framework for VET, one of the PRSP priorities.

The Food Security Programme (FSP) has a ten year successful and uninterrupted presence in Armenia. Since 1997 – the first state budget year supported – the FSP has disbursed €86.5 million (in nine annual Programmes) to the state budget in support of reforms in PFM, agriculture and land reform and social protection.

The present project proposes to build on lessons learnt from those 2 important programmes.

With a view to maximising the synergies between Tacis and FSP, two separate Tacis technical assistance interventions were developed under the Action Programme (AP) 2004. They aim at providing in-depth professional support to the Ministries of Agriculture (recently tendered) and Labour & Social Affairs (MLSA). The latter is under preparation following recommendations of the short-term policy advice project mentioned in section 1.1 above.

The Tacis technical assistance project entitled “Support to Development of a Strategic and Legal Framework for the Implementation of VET Reform” has supported VET reforms in Armenia since 2003. This project has assisted the Ministry of Education and Science (MoE&S) to draft a national VET strategy that better matches labour market needs. It is important to build on this first project’s successes by ensuring that realistic and affordable actions are designed with the Armenian state budget stemming from VET strategy.

The FSP has ten years of experience in PFM and public expenditure management reforms both at systemic level as well as assisting partner line ministries and bodies. The EC shall build on FSP experience and the solid cooperation with the GoA to assist reforms in budget planning and preparation, the development of non -financial indicators, costing, budget execution and reporting, for example. The present project shall focus detailed attention in the line MoE&S and MLSA.

In the area of social protection, the present SP intends to continue successful reforms in childcare and child protection that started under FSP -MLSA collaboration, in matters such as consolidating the new nation -wide system of child protection (National and Regional Commissions),n developing credible alternative services to institutionalised childcare, rationalising the management of the orphanage network and enforcing the recently adopted child welfare standards. It is important to note that these reforms are not yet sustainable and considerable effort and commitment from both the GoA and the EC will be required.

### **1.3. Complementary actions**

The aforementioned Tacis project on child protection under preparation, planned for 2006-2007 is more than just a complementary action. It is an integral part of the EC support to on-going reforms in child protection. The project will focus on developing skills of Government, municipality and civil society professionals involved in child protection at national, regional and local levels. Another important component of the project will be advocacy and public awareness regarding child protection and in particular, the perils of institutionalised care.

The EC supports VET-reform with two projects on “Assistance to Development of an Integrated Vocational Education and Training (VET) System in Armenia” that is expected to be completed by July 2006 and a new small scale project on “Support for the establishment of the National Institute for VET Development in Armenia” to be launched in later spring 2006 with the duration of 8 months. These two projects aim at setting up new and strengthening existing VET-capacities for using public funds allocated to the VET-sector in an effective and efficient manner.

It is important to mention that a short Tacis project entitled “Support to Development of a Strategic and Legal Framework for the Implementation of VET Reform” was completed in 2005 and had two main objectives: 1) to put in place a comprehensive strategic setting for the reform of the Armenian VET system and 2) to provide the legal framework for the effective development and implementation of the large Tacis project “Assistance to Development of an Integrated VET System in Armenia”.

### **1.4. Donor coordination**

The Government’s sectoral strategies are firmly embedded in the PRSP process. Hence, Governmental coordination of donor programmes and projects are essentially organized in the context of the PRSP. The GoA is committed to streamline all poverty reduction dialogue within the PRSP framework but more cooperation and better support by donors is needed for this. The EC Delegation participates as a member of the PRSP Steering Committee and Working Group. Other specific donor coordination also takes place through routine donor coordination meetings lead by the line ministries and international donors.

In the area of PFM reform, the GoA is assisted by the Bretton -Woods institutions, DFID (development of medium expenditure framework and performance budgeting), US Treasury (public sector accounting reform and development of a Government Financial Management Information System). The EC, through the FSP, has been closely collaborating with all players at different degrees always within the auspices of the MFE. Indicatively it is mentioned that in 2002 the FSP made a considerable contribution to the World Bank “Country Procurement Assessment Report” (CPAR) which later culminated to the improvement of the Law on Procurement and related regulations.

In the area of social protection, and child protection in particular, it is important to mention the role of UNICEF in assisting GoA with de-institutionalisation policy and advocacy. The present project will of course seek optimal complementarity with UNICEF activities in this area.

## **2. COUNTRY CONTEXT**

### **2.1. Economic and social situation**

The macroeconomic situation has been stable since 2000. Annual GDP growth has been more than 10% in recent 5 years. In 2005 the GDP growth was 13.9% compared to 10.1% annual growth in 2004. In 2005, per capita GDP amounted USD 1513, compared to USD 1106 in 2004. The average annual inflation in 2005 was 0.6% (7% in 2004 and 4.7% in 2003). Foreign trade negative balance in 2005 amounted USD 817 mln. The current account deficit GDP ratio in 2004 was 4.5%.

The good macroeconomic performance helped to keep the budget deficit below 3% of GDP since 2002 (2.3% of GDP in 2005). In 2006 tax revenues are planned to be around 15.2% of GDP compared to the 14.5% of GDP collected in 2005 and 14.1 % in 2004.

In 2005, the execution of the budget was in line with the approved annual budget plan. In 2006 state budget revenues and expenditures are planned to increase by 19.4% and 22.3% accordingly. Budgeted tax revenues represent 88.3% of total revenues, and the priority sectors for expenditures are the social sectors. The share of social insurance and social protection in the approved 2006 state budget is 11.6% and the share of education and science is 17.1%.

According to the latest household survey of 2004 the poverty rate was 34.6% and the extreme poverty was 4.6%. The poverty gap in 2004 was 7.4% and the severity of poverty was 2.4%. The above data represents substantial reduction of poverty compared to 1999, when the poverty rate was 56.1% and the extreme poverty was 21%. The unemployment rate remained at 9.5% in 2005.

### **2.2. Cooperation policy of beneficiary country**

The basic document for cooperation policy is the Poverty Reduction Strategy Paper (PRSP) that Government adopted as its overarching and guiding policy document in August 2003. The measures envisaged under the PRSP should be predominantly financed from the consolidated state budget. Social expenditure is expected to increase in proportion to other major budget expenditures in the years to come to address key issues in education (including primary and secondary vocational education), the social safety net (including social assistance to children) and health.

The GoA established a 3-year Medium Term Expenditure Framework (MTEF) in 2004. The MTEF is a mechanism for managing public finances beyond the one-year horizon of the annual budget. The MTEF is also expected to programme public expenditure related to PRSP-priorities.

The way strategies for education (including VET) and social protection (including childcare and child protection) are transformed to spending programmes should be effectively laid out in the MTEF. The MTEF for 2007 -2009 is under preparation and is expected to include financial availabilities and gaps for education and social protection as well as the actions envisaged in the present SP proposal.

## **2.3. Sector Policy**

### *a) Vocational Education Training (VET)*

In August 2005, the MoES approved a “VET Modernization Priorities Paper and Action Plan (2005-2008)”, aiming at concentrating efforts on initial and middle vocational education and training with two major goals: quality and effectiveness.

State budget allocations to the education sector are on the rise, although still half the average level recorded in OECD countries in 2002. At the same time, the structure of budgetary allocations by different levels of education is comparable with OECD indicators. Despite the fact that most of the educational expenditure will be channeled to general education sector, improving the quality of vocational and retraining programmes and bringing them in line with the country’s socio-economic development objectives will be and remain of fundamental importance to contribute to an adequately skilled labour market.

### *b) Child Protection*

One key area of the PRSP is the alleviation of child poverty. The Government, in collaboration with EC FSP, initiated fundamental reforms in the area of childcare and child protection including the establishment of a comprehensive child protection system, improvement of institutionalised care and, in parallel, development of alternative services to institutionalised childcare. The core concepts of the childcare and child protection policy are developed in the overall Strategy on “Reforms in Social Protection of the Children in Difficult Situations” approved by the Government in January 2006. The adoption of the Strategy and of the new child protection will require technical and financial support through the EC.

### *c) Public expenditure management*

Besides, the public finance system of Armenia is considered by major donors (IMF, WB, DFID, USAID) to be satisfactory and reliable. A public finance assessment using the Public Expenditure and Financial Accountability (PEFA) indicators has been carried out recently by the WB and, although not disseminated yet, its authors confirm that the Armenian PFM system is satisfactory and that there are no major fiduciary concerns related to the provision of budget support. This opinion confirms the results of a public finance assessment carried out in 2004 by the EC FSP team following a request from AIDCO. GoA PFM reform agenda concentrates, among other things, in the public sector accounting reform, strengthening the budget preparation and execution process with the inclusion of non-financial indicators for outputs and outcomes of public spending, developing a meaningful internal audit system, for example.

It is worth noting that these three components are closely interlinked. Strengthening child protection is expected to improve, among others, quantity and quality of child care facilities. This in turn may allow household holders (in particular women), which are job seekers, to access more and better labour market oriented VET, with a strong gender dimension. Further improvement of PFM is expected to allow better use of resources in these two areas.

### 3. DESCRIPTION

#### 3.1 Objectives

The overall objective of this SP is in tune with the Armenian PRSP and aims at contributing to the effort by the Government and society to reduce poverty through sustainable economic growth and development.

The specific objective of this SP is to assist the Government of Armenia to improve the design, management, delivery and effectiveness of state programmes and services in the vocational education and social protection areas. The entry point for the aforementioned would be to link the policy framework to realistic and sustainable public spending and strengthen public expenditure management in the SPSP sectors of intervention as well as contribute to the overall PFM reform agenda of GoA.

#### 3.2 Operating modality

The SP will be managed centrally, i.e. by the Commission. The use of budget support is appropriate given the existence of sound policies and strategies, the existence of donor coordination, and improvements in public financial management, including the regular updating of a Medium Term Expenditure Framework. Technical assistance is foreseen to assist the successful implementation of the reform agenda as well as for the fulfillment of the conditions and indicators under the SP.

#### 3.3 Expected results and main activities

The expected results of the programme in Armenia will be seen (a) in the improvement of government programmes and services in the sectors of education and social protection, and (b) in the quality and effectiveness of public expenditure management.

It is noted that at present GoA request is for assistance in VET and childcare and child protection. This however does not preclude widening the scope of the SP to other areas in the education and social protection sectors. These issues will be finalised during the development of the Financing Proposal for the SP.

- In the area of **vocational education and training** (VET), the specific objective is to bring the structure and context of the VET system in line with labour market skill needs, thus promoting the actual employability of active population and businesses competitiveness. The expected results relate to the implementation of mid-term “VET Modernization Priorities Paper and Action Plan (2005 -2008)” and rationalising and creating relevant and affordable public services.
- In the area of **childcare and child protection**, the MLSA is expected to implement the comprehensive Strategy on “Reforms in Social Protection of Children in Difficult Situations” for 2006-2010 and particularly (a) to put in operation the newly established child protection system and further rationalise childcare, and (b) to strengthen existing child protection services and create affordable new state programmes and services alternative to institutionalised childcare.

- In the area of **public expenditure management**, the Ministry of Finance and Economy (MFE), MLSA and MES are expected to work towards improving the budget preparation and execution process. This should contribute to maximising allocation efficiency by improving prioritisation, introducing efficient costing and developing non-financial and performance indicators to demonstrate results for public spending. The aforementioned should be done in a way that draws from and contributes to the overall PFM reform process.

### **3.4 Stakeholders and institutional capacity**

The main direct stakeholders are the MFE, MoES, and MLSA and their related spending units.

With respect to the overall institutional capacity, the Tacis and FSP programmes have widely contributed to capacity improvement and institutional development in Armenia over the last 10 to 15 years. Indeed, capacity and institutional building are explicit and core elements of the expected results under the SPSP, as described in section 3.3.

### **3.5 Risks and assumptions**

The main risks are related to the geopolitical realities of the Caucasus region. Should the present political stability and economic growth remain, it is safe to assume that commitment of the Government of Armenia to the necessary reforms and to the SPSP will remain as solid as it has been in the recent years.

### **3.6 Crosscutting Issues**

The programme will address crosscutting issues where appropriate, specifically gender balance and good governance.

## **4. IMPLEMENTATION ISSUES**

### **4.1. Implementation method**

Centralised management.

### **4.2. Budget and calendar**

The total proposed SP is for Euro **7.5 million** (0.5 mln for technical assistance). The funding will come from Tacis the AP 2006. Disbursements under the SPSP will take place over a period of one year: the Armenian fiscal year of 2007. The funds will be released through 2 installments.

The technical assistance component of the SP will be managed by the EC Delegation according to the needs of the SP.

### **4.3 Procurement procedures (for the TA component)**

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

### **4.4. Performance monitoring**

Oversight of the overall SP will be entrusted to a Steering Committee (SC) chaired by the Minister of Finance and Economy. The members of this Committee will include representatives of all ministries and institutions involved in the implementation of the present SP, and representatives of the European Commission. The precise membership of the SC will be agreed upon between the Commission and the Government of Armenia and will be outlined in detail in the Financing Agreement.

The proposed SP will be reviewed twice during the implementation year to assess the state of compliance with the conditions and indicators attached. The reviews will issue recommendations, as appropriate, regarding the disbursement of the installment(s).

The general conditions for the disbursement of budget support will be based on continued macroeconomic stability, improvements in public financial management and implementation of the relevant policies and strategies.

The specific conditions for the release of the two installments of EC funds will be based upon the fulfilling, by the Government, of conditions and indicators relating to the areas targeted by the project, i.e., VET, child protection and public finance management. These conditions and indicators will be specified in detail when elaborating the Financing Agreement.

### **4.5. Evaluation and audit**

Evaluation and audit on the different parts of the project will be carried out as needed during their implementation and after their conclusion. The conditions of verification of each implementing contract apply.