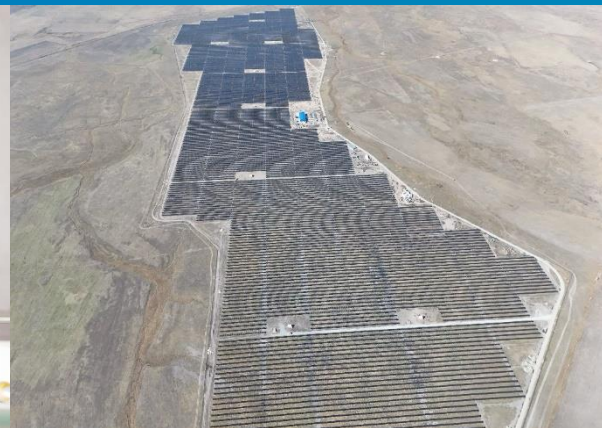




Armenia Country Strategy 2025-2030

Approved by the Board of Directors on 26 February 2025



European Bank
for Reconstruction and Development

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Glossary of key terms

ABI	Annual Business Investment	IT	Information Technology
ASB	Advice for Small Businesses	LTS	Long-Term Strategy
CBA	Central Bank of Armenia	MSME	Micro, Small & Medium sized Enterprise
CEPA	Comprehensive and Enhanced Partnership Agreement	M&S	Manufacturing & Services
COO	Country of Operations	MoU	Memorandum of Understanding
CPI	Consumer Price Index	NDCs	Nationally Determined Contributions
CSO	Civil Society Organization	NPL	Non-Performing Loans
E&S	Environmental & Social	ODA	Official Development Assistance
EEC	Eastern Europe and Caucasus	OECD	Organisation for Economic Co-operation and Development
EF	Expertise France	PFI	Partner Financial Institution
EFSD	European Fund for Sustainable Development	PPP	Private-Public Partnership
EIB	European Investment Bank	PPP	Purchasing Power Parity
ENA	Electric Networks Armenia	PR	Performance Requirements
EU	European Union	RE	Renewable Energy
FDI	Foreign Direct Investment	RSF	Risk Sharing Facility
FI	Financial Institution	SME	Small and Medium sized Enterprise
GDP	Gross Domestic Product	SMECI	SME Competitiveness and Inclusion Programme
GEFF	Green Economy Financing Facility	SOE	State-owned Enterprise
GET	Green Economy Transition	TA	Technical Assistance
GGF	Good Governance Fund	TC	Technical Cooperation
GHG	Greenhouse Gas	TFP	Trade Finance Programme
ICA	Industry, Commerce & Agribusiness	TMT	Telecommunications, Media and Technology
IEA	International Energy Agency	VC	Venture Capital
IFI	International Financial Institution	WIB	Women in Business
ILO	International Labour Organisation	WTO	World Trade Organization
ISDA	International Swaps and Derivatives Association	YiB	Youth in Business Programme

Armenia has, over the previous Country Strategy period, remained committed to the application of the political principles as stated in Article 1 of the Agreement Establishing the Bank. The authorities have made progress in implementing reforms, in particular in the fields of justice and the fight against corruption. Improving gender equality and overcoming all forms of discrimination have remained, according to relevant international organisations, important challenges.

Between 2019 and 2024 Armenia's economy experienced strong GDP growth amid global and regional challenges, including COVID-19, the military conflict with Azerbaijan and Russia's war on Ukraine. Solid economic performance was supported by large capital inflows, buoyant export demand and the robust development of construction, hospitality, and information and communication services. Notwithstanding recent achievements, Armenia still faces substantial structural challenges, primarily in the areas of access to finance for private firms, particularly small businesses, exacerbated by competition from the informal sector and an inadequately skilled workforce. Productivity growth is hampered by gender disparities and regional differences, while low-value-added products, particularly metals and minerals, dominate the export basket. Additionally, Armenia's small and landlocked geography coupled with an underdeveloped transport infrastructure restrict market integration and internal connectivity. Despite positive efforts to privatise and introduce cost-reflective tariffs, the energy sector is highly dependent on imported cheap Russian gas, which has hindered the scaling-up of renewable energy capacity and investments in energy efficiency.

These challenges underscore the need for continued reforms. While progress has been made in areas such as electricity market liberalization and anti-corruption measures, the EBRD's recent assessments of Armenia's transition qualities highlight that the country continues to significantly lag behind Organisation for Economic Co-operation and Development (OECD) economies across all six dimensions of economic transition.

With these considerations in mind, during the next country strategy period the Bank will focus on strengthening Armenia's economic diversification by supporting companies in high-potential sectors, while working to improve trade routes and logistics infrastructure to enable efficient economic interactions. Additionally, the Bank will support human capital development and increase access to finance for underserved groups, including refugees, in the economy a key priority going forward. In line with the forthcoming Strategy and Capital Framework, emphasis will be placed on improving corporate governance standards and engaging in policy dialogue to strengthen Armenia's business climate. The Bank will also seek to promote decarbonisation and enhance energy efficiency, while supporting Armenian cities address their most pressing environmental challenges through targeted sustainable infrastructure investments and capacity building.

The Bank is therefore set to pursue the following strategic priorities in Armenia in 2025-2030:

- *Support the Development of a More Inclusive and Competitive Private Sector*
- *Accelerate the Green Economy Transition Through Support for Sustainable Infrastructure*

Armenia – EBRD Snapshot



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EBRD investment activities in Armenia (as of January 2025)

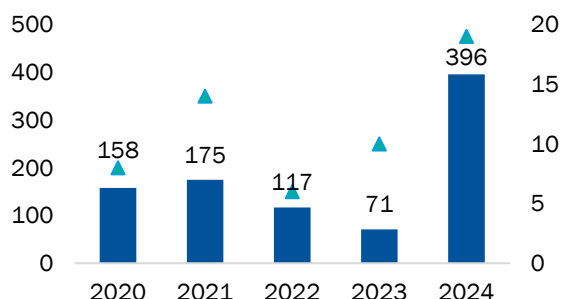
Portfolio	€594m	Active projects	61
Equity share	6%	Operating assets	€253m
Private Sector Share ¹	69.5%	Net cum. investment	€2,574m

Armenia context figures

	Armenia	Comparators
Population (million) ³ (2023)	2.99	Georgia: 3.72 Latvia: 1.88 North Macedonia: 1.83
GDP per capita (current \$ PPP) ³ (2023)	21,343	Georgia: 25,072 Latvia: 41,384 North Macedonia: 24,327
New Business Density ⁴ (New registrations per 1,000 population, 2022)	6.4	Georgia: 8.5 Latvia: 6.7 North Macedonia: 4.6
Unemployment (%) ⁵ (2023)	13.2	Georgia: 11.5 Latvia: 6.5 North Macedonia: 13.2
Youth unemployment (%) ⁵ (2023)	26.1	Georgia: 30.2 Latvia: 12.3 North Macedonia: 29.6
Female labour force participation (%) ⁵ (2023)	68.7	Georgia: 61.2 Latvia: 74.4 North Macedonia: 54.1
Energy intensity TES/GDP (MJ/2015 \$ PPP) ⁶ (2022)	4.3	Georgia: 3.7 Latvia: 3.1 North Macedonia: 3.5
Emission intensity/GDP (kgCO ₂ /2015 \$) (2022) ⁶	0.5	Georgia: 0.5 Latvia: 0.2 North Macedonia: 0.7

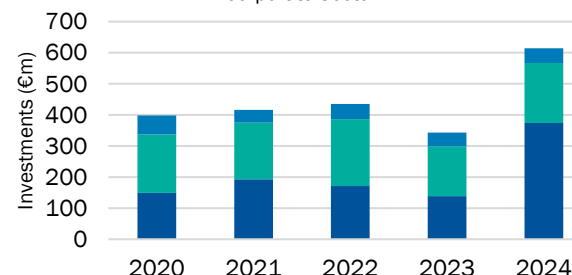
ABI and operations

■ ABI (left axis) ▲ Number of operations (right axis)



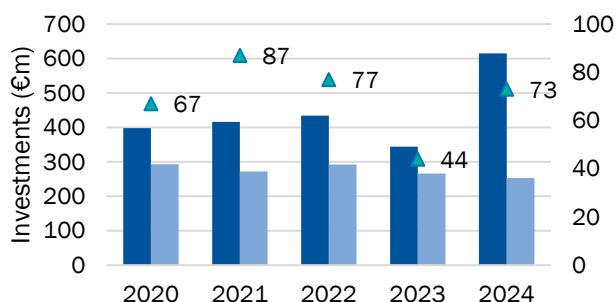
Portfolio composition

■ Sustainable Infrastructure
■ Financial Institutions
■ Corporate Sector

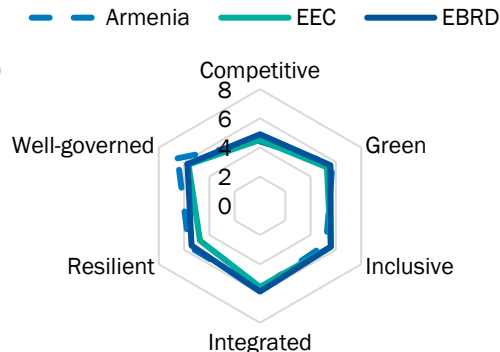


Portfolio dynamics

■ Portfolio ■ Operating Assets ▲ Disbursements (right axis)



Transition Gaps²



¹ Cumulative Bank Investment: 5 year rolling basis on portfolio; ² Cf. EBRD Transition Report 2024-2025; ³ World Bank WDI; ⁴ WB Entrepreneurship Survey (population aged 15-64); ⁵ ILO; ⁶ IEA

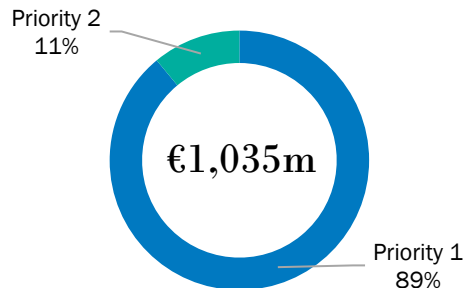


1. Implementation of Previous Strategy (2019-2024)

1.1. Key Transition Results Achieved during Previous Strategy (1/2)

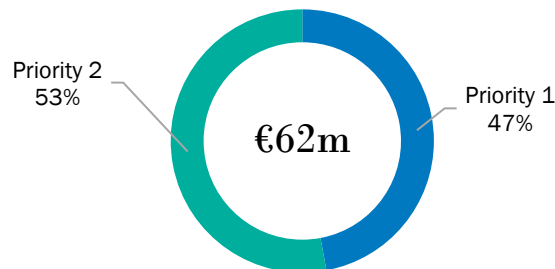
Strategic alignment 2019-2024

Cumulative Business Investment

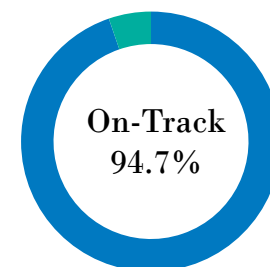


GET Share: 31%

Technical cooperation and co-investment funds¹



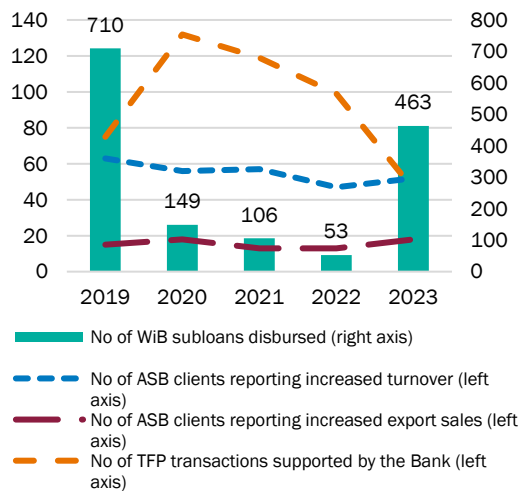
Transition impact performance²



Priority 1

Strengthen private sector competitiveness, improve governance and support business environment reforms

Key quantitative results (2019-2023)



Key transition results

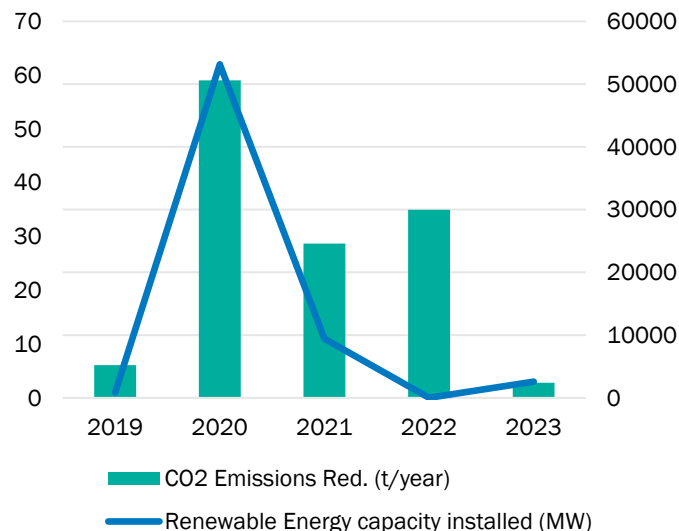
- Supported the financing of Armenia's foreign trade through the deployment of EUR 340m+ with local partner banks under TFP
- Provided skills-enhancing trainings to over 1000 SMEs and advisory support to over 270 SMEs under ASB, with 92% reporting increased turnover
- Provided over EUR 225m to 10 PFIs, 9 partner banks and 1 leasing company, including for SME competitiveness, GEFF and WiB, enhancing the capacity of PFIs to serve the female segment's untapped market potential and raising awareness on the environmental and cost savings benefits of green technologies
- Supported business climate improvements, including reforms to public procurement policies, insolvency law and competition legislation through support to the Investment Council
- Helped the Central Bank of Armenia in drafting and adopting the Armenian crowdfunding regulatory framework, resulting in the licensing of the first crowdfunding platform. Assisted the CBA in drafting an ISDA master agreements templates governed by Armenian law and focused on derivatives and repo transactions, continued dialogue with the CBA on money market development and sourcing AMD liquidity from Amundi-ACBA through swaps and repos
- Invested in the EU-Armenia SME Fund, a private equity fund managed by Amber Capital Armenia, which has attracted more than EUR 60m since inception, with two-thirds deriving from private, non-development finance
- Signed a EUR 14.5m package with InecoBank to develop science innovation hub EU TUMO in Yerevan, financing the development of a multifaceted complex equipped with state-of-the-art facilities for engineering and applied sciences; the financial package was coupled with TC to help refugees integrate into the labour market
- Launched a Refugee Response Plan, encompassing various initiatives, including, the Refugee Response Window (RRWA) to support MSMEs with more than EUR 44m financing expected to be channelled via 5 PFIs and one leasing company along with EUR 11m investment incentive funded by the EU (EUR 8.2m) and EBRD SSF (EUR 2.7m). Other activities include a labour market integration initiative under the Customs and Logistics Centre project in Syunik, the inclusion of a gender-responsiveness component in the Sisian-Karajran road project focusing on women refugees, upskilling and reskilling of the Refugees at Tumo Center, and other ASB led interventions.

1. Implementation of Previous Strategy (2019-2024)

1.1. Key Transition Results Achieved during Previous Strategy (2/2)

Priority 2 Promote sustainable infrastructure through commercialisation and green economy transition

Key quantitative results



Key transition results

- Co-financed with the EU and IFC (USD 17.7m EBRD loan), the development of the first utility-scale solar power plant (55MW) in Armenia, which was also the first in the Caucasus
- Increased access to greener public transport in Yerevan via co-financing (EUR 20m sovereign loan) the acquisition of 87 compressed natural gas buses
- Co-financed via a EUR 10.5m loan the reconstruction and modernisation of a border crossing point near the town of Meghri, supporting regional cross-border integration through the operational continuity of freight and passenger flows
- Supported Telecom Armenia to improve access to reliable, high-speed, fiber optic internet for approximately 450,000 households via a EUR 18.7 million direct loan for energy-efficient upgrades to the company's fixed and mobile networks
- Provided a sovereign loan of up to EUR 236m to co-finance the construction of the 24-km Southern section of the Sisian-Kajaran road, reducing travel distance (from 130 km to 60 km) and travel time (from the current 3-4 hours down to one hour) and providing a safer connection between Armenia's remote southern region of Syunik with Yerevan, the rest of the country and, via Georgia and the Black Sea, with the EU
- Provided capacity building and corporate development support for different municipal projects, including Yerevan street lighting, Yerevan Solid Waste as well as Kotyak and Gegharkunik Solid Waste
- Financed the construction of a customs and logistics centre in the Syunik region via a EUR 10m sovereign loan, coupled with a EUR 2m investment grant under the Shareholder Special Fund, helping to enhance the efficiency of customs clearance services and meet higher demand amid increases in trade volumes



1. Implementation of Previous Strategy (2019-2024)

1.2. Challenges to Implementation and Key Lessons

Context for implementation

Over the previous strategy period, Armenia's economy experienced strong GDP growth despite global and regional challenges, including COVID-19, the military conflict with Azerbaijan and Russia's war on Ukraine. Solid economic performance was supported by large capital inflows, buoyant export demand and the robust development of construction, hospitality, and information and communication services. Notwithstanding these achievements, Armenia still faces substantial structural challenges, primarily in the areas of access to finance for private firms, particularly small businesses, exacerbated by competition from the informal sector and an inadequately skilled workforce. Productivity growth is hampered by gender disparities and regional differences, while low-value-added products dominate the export basket. Additionally, Armenia's landlocked geography and underdeveloped transport infrastructure restrict market integration and internal connectivity. Despite positive efforts to privatise and introduce cost-reflective tariffs, the energy sector is highly dependent on cheap imported Russian gas, which has hindered the scaling-up of renewable energy capacity and investments in energy efficiency. Since starting operations in Armenia in 1993 EBRD has invested over EUR 2.5 billion, with more than EUR 1 billion invested between 2019 and 2024, focused on forging a competitive private sector and a resilient financial sector and fostering sustainable infrastructure and public utilities. Additionally, in response to the influx of over 115,000 refugees since September 2023, the EBRD has implemented a Refugee Response Plan to protect and restore livelihoods and bolster community resilience.

Implementation challenges

- Dollarisation and the underdevelopment of capital markets restrict investment opportunities
- Regional instability, landlocked geography and a narrow economic base weaken investor confidence and limit FDI inflows
- Uncertainty regarding appetite for sovereign borrowing and municipalities' unreadiness for sub-sovereign borrowing coupled with lack of implementation capacity at municipal and national level limit progress on pursuable public sector operations
- Highly liquid banking sector has reduced opportunities for impactful corporate lending at market rates

Key lessons & way forward

- Foster policy dialogue with the Central Bank of Armenia on local currency as well as money and capital market development
- Engage with local businesses and international investors to attract FDI in underdeveloped sectors, focusing on diversifying the economy and increasing the attractiveness of the business environment, including via continued collaboration with the Investment Council
- Continue cooperation with the EU and seek dialogue with the government to pursue highly selective public sector projects vis-à-vis public infrastructure development and PPPs
- Focus on expanding the FI product offering via innovative and flexible financial products, e.g. incorporating first loss or risk and portfolio sharing



2. Economic Context

2.1. Macroeconomic Context and Outlook for Strategy Period

Armenia – Main Macroeconomic Indicators

	2020	2021	2022	2023	2024 Est.
GDP growth (% y-o-y)	-7.1	5.8	12.6	8.3	5.7
CPI inflation (% avg.)	1.2	7.2	8.7	2.0	0.3
Government balance (% of GDP)	-5.4	-4.6	-2.1	-2.0	-4.8
Current account balance (% of GDP)	-4.0	-3.5	0.3	-2.3	-4.1
Net FDI (% of GDP) <i>[minus indicates inflow]</i>	-0.7	-2.4	-4.7	-2.2	-0.8
External debt (% of GDP)	100.4	97.6	77.9	66.5	64.5
Gross reserves (% of GDP)	20.7	23.1	20.6	15.0	14.2
General government gross debt (% of GDP)	67.4	63.4	49.2	50.7	52.6
Unemployment rate (%)	18.2	15.5	13.5	12.6	13.0
Nominal GDP (\$bn)	12.6	14.0	20.0	24.1	25.8

Source: Statistical Committee of the Republic of Armenia; IMF, October 2024.

Economic growth gradually moderated in 2024. After two years of robust growth, annual GDP is estimated to have increased by 5.7 per cent in 2024, mainly driven by double-digit rise of construction, trade, and financial sector and a robust growth of manufacturing. On the other hand, net inflow of remittances fell by 33 per cent year on year in the first half of 2024 but it remained markedly higher than in 2021. Moderating capital inflow did not affect the Armenian Dram which remained broadly stable.

Prudent monetary policy kept inflation low. The inflation rate dropped to zero in 2023 mainly due to falling food prices, relatively high policy rate and appreciation of Armenian Dram though services prices have remained sticky. Successful disinflation allowed the Central Bank of Armenia (CBA) to cut the policy rate by 250 basis points since the beginning of 2024 to 6.75 per cent in February 2025. Annual inflation slightly rebounded to 1.7 per cent in January 2025 but remains below the revised targeted level of 3.0 per cent.

Further fiscal expansion temporarily widened the budget deficit in 2024. The authorities announced an increase in government expenditure to accommodate the integration of over 115 thousand refugees since September 2023 and to strengthen national defence. Capital expenditure will surge further in 2025 to address those critical issues, potentially raising fiscal deficit at 5 per cent of GDP. Nevertheless, the new medium-term expenditure framework 2025-2027 aims at keeping the fiscal deficit low at 3.0 per cent of GDP. Such fiscal policy is designed to further enhance public debt resilience against potential exchange rate risks.

GDP growth is likely to moderate in short run. Although temporary capital inflows related to the war on Ukraine dissipated, increased government spending to meet the needs of the refugees and strengthen national defence will compensate to some extent. New investments in mining will have positive impact on output and export growth in medium-term. However, geopolitical uncertainty poses sizeable risks to the economic outlook. Therefore, we forecast GDP growth to ease to 5.0 per cent in 2025 and 4.5 per cent in 2026.

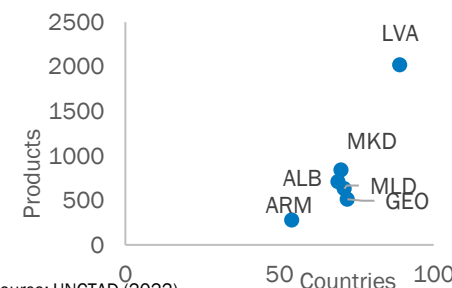
2. Economic Context

2.2 Key Transition Challenges (I/II)

Competitive (4.41)

- A **small and landlocked market** has been additionally disadvantaged by **geopolitical challenges**
- Armenia has been aligning its **competition regulation with European standards**, particularly through the Comprehensive and Enhanced Partnership Agreement (CEPA) with the EU
- As a small economy, Armenia's **growth potential is highly dependent on its export capacity**. However, **exports are limited in product variety**, and they mainly consist of low complexity products.
- Both **government and private sector are aware of the risks** from overexposure to Russia and the authorities initiated work on the **export diversification strategy**.
- **Innovation is at the centre of the economic diversification** and move to higher value-added products, **yet results are not compelling**.

Exports diversification by countries and products (2022)

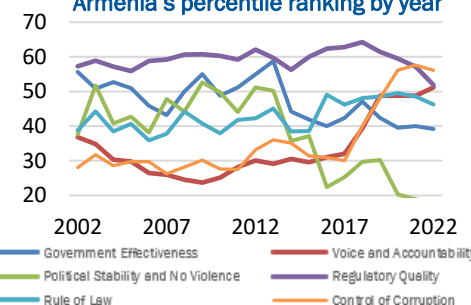


Source: UNCTAD (2022)

Well-governed (6.52)

- The **absence of institutional capacity** within the public administration impede the government's ability to address key challenges and implement a coherent reform agenda.
- Progress on **economic governance** indicators has been inconsistent in recent years, with geopolitical developments in the region posing additional challenges to reforms. While Armenia **has reduced administrative and regulatory burdens** in recent years, **progress is slow** and has not yet had a transformational effect
- The government's progress in **tackling corruption** is reflected in Armenia's **advances** in Transparency International's Corruption Perception Index; notably institutional capacity to tackle corruption has increased with the establishment of the Corruption Prevention Commission in 2019 and an Anti-Corruption Committee in 2021
- **The SOE sector, while modest in size** compared to its regional counterparts, holds significance in vital sectors like energy and healthcare
- While Armenia's legal framework generally supports proper governance practices, the current **Corporate Governance Code lacks enforcement**.

Worldwide Governance Indicators, Armenia's percentile ranking by year

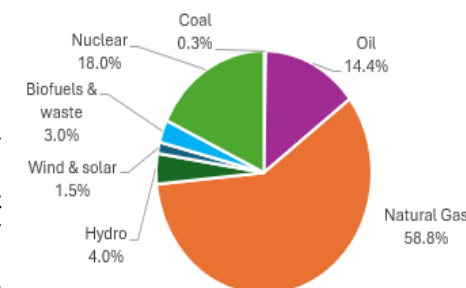


Source: World Bank (2023)

Green (5.73)

- **Low investment in energy efficiency and green technology has delayed Armenia's efforts to reduce the use of fossil fuels for domestic energy supply**. This trend is likely to deter the decoupling of economic growth from emissions growth. In 2022, natural gas and oil combined accounted for 73.2 per cent of total energy supply, followed by nuclear at 18 per cent.
- **Natural gas is the primary energy carrier in final consumption in Armenia**. Due to the relatively low price of gas imported from Russia, it is the preferred source of energy by households, transport and industrial capacities.
- **Natural gas has also been the primary source of electricity production**. Additionally, heat generation stems entirely from natural gas. Nuclear energy is the second main source of electricity production, although the Armenian Nuclear Power Plant has long faced challenges due to aging infrastructure.
- **Meanwhile, carbon intensity in Armenia remained broadly stable while EBRD peers made substantial progress reducing it by around 20 per cent**. EEC peers still have higher carbon intensity economies than Armenia, but EBRD average is already lower and the gap is widening.
- **The energy sector is the key contributor to GHG emission in Armenia, accounting for 70 per cent of total emissions over the past few years**. The intensive use of fossil fuels for heat and electricity generation is the primary reason for emissions growth followed by agriculture

Total energy supply by source, 2022



Source: ArmStat (2022)

2. Economic Context

2.2 Key Transition Challenges (II/II)



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Inclusive (5.23)

- Demographic trends highlight **an aging population**, and **high migration levels**, albeit the influx of over 115 thousand refugees has temporarily reversed migration dynamics.
- As of early 2023, poverty stood at 24.8 per cent disproportionately affecting women, who made up 56 per cent of the poor.**¹ Armenia faces low labor force participation (56%), high unemployment (12.5%), and a significant NEET (not in employment, education, or training) rate among youth, particularly young women. Informal employment is prevalent, especially in rural areas and agriculture
- The labour market is characterised by **significant gender-based sectoral segregation**, with women overrepresented in part-time and unpaid work. **Gender pay gaps persist**, and women are less likely to own businesses or hold top management positions.
- Underinvestment in education and employment programs limits Armenia's human capital development.** The government plans to raise education spending to 4% of GDP by 2030, focusing on quality, access, and better integration of private sector expertise to address skills shortages.

Integrated (5.67)

- Armenia benefits from **memberships in the WTO, EAEU, and CEPA with the EU**, which offer favourable access to large markets. At the same time, the geopolitical reality complicates the country's integration into regional transport networks and global trade.
- Armenia's **integration into regional and global trade is hindered by its landlocked geography**, closed borders with Turkey and Azerbaijan, and limited trade routes, **making Georgia a critical transit point** for access to international markets.
- While Armenia has relatively dense road and rail networks, the **overall quality of its transport infrastructure is low**, with road and rail services facing inefficiencies and logistical challenges.
- The decline of Armenia's railway network has shifted **the reliance to road transport for both goods and passengers** but aging infrastructure and increasing road fatalities present significant safety challenges, prompting efforts to improve conditions and standards.
- As part of the Crossroads of Peace, Armenia is investing to position itself as a potential transit country and enhance its regional connectivity, including via plans to build a logistics hub in Gyumri.

Resilient (5.61)

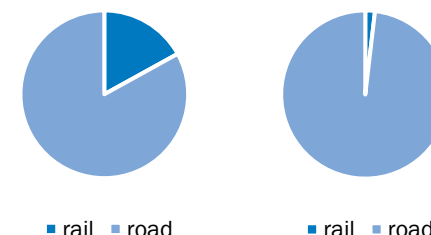
- Armenia's financial markets remain underdeveloped despite stable macroeconomic environment, favourable legal conditions for market development and a growing investor base.** Nonetheless, main challenges include low levels of depth, liquidity and diversification in all market segments.
- Armenia's financial system, however, has been steadily growing over the past decades** and volume of its assets reached 115 per cent of GDP in 2023. It is dominated by a sizeable banking sector, whose assets amounted to 97 per cent of GDP and 84 per cent of total financial system assets.
- Armenia heavily relies on imported, cheap natural gas from Russia for domestic energy supply and consumption.** Being landlocked and dependent on a single supplier exposes Armenia's energy security to geopolitical risks.
- In January 2021, the Armenian government approved a new Energy Sector Development Strategic Programme outlining goals for strengthening energy security by 2040.** It outlines maximising renewable energy, boosting power transmission links with Georgia and Iran and gradually liberalising the domestic electricity market, as well as modernising the ageing Armenian Nuclear Power Plant (ANPP) beyond 2026, which will require significant investment. In February 2024, Armenia adopted its Long-term Low Greenhouse Gas Emissions Development Strategy, whereby it reaffirmed its ambition to reduce GHG emissions to 2.07 t CO2 equivalent per capita by 2050.

Armenia Basic Poverty Indicators, 2022

	Extremely poor	Poor	Percent, poor population	Poverty gap*	Poverty severity* (percent)
Urban	1.0	22.1	54.0	4.1	1.1
Yerevan	0.7	18.5	22.5	3.4	0.9
Other urban	1.3	25.8	31.5	4.8	1.3
Rural	1.5	29.0	46.0	5.6	1.6
Total	1.2	24.8	100.0	4.7	1.3

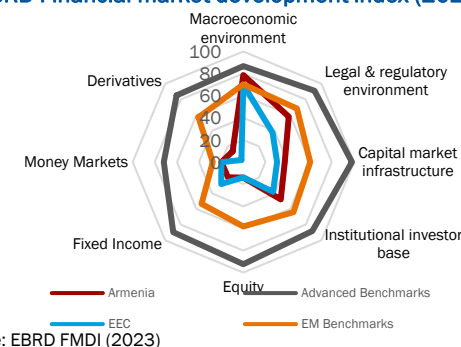
Source: ILCS 2022

Distribution of transport of goods (left) and passengers (right) between road and rail transport (in million tonne km and million passenger km)



Source: Statistical Committee of the Republic of Armenia (2023)

EBRD Financial market development index (2023)



1. Poverty rate defined as Poverty headcount ratio at \$2.15 a day (2017 PPP) (% of population) (World Bank)

3. Government Priorities and Stakeholder Engagement



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3.1 Government Reform Priorities

Armenia's national priorities are detailed in the **2021-2026 Government Plan**, which outlines a comprehensive approach to address Armenia's national challenges and advance its development goals through targeted investments and reforms across the following key areas:

1. **Security and Foreign Policy:** Achieving just and lasting peace in the region, ensuring national security and strengthening defence capabilities, with a focus on stabilizing regional dynamics and pursuing a balanced, proactive foreign policy to enhance Armenia's international standing and foster regional cooperation.
2. **Economic Development:** Economic growth through diversification and innovation, aiming to create a competitive business environment, boost exports, and attract foreign investments, with special attention to supporting small and medium-sized enterprises (SMEs).
3. **Infrastructure Development:** Significant investments are planned in transport, energy, and digital infrastructure to improve internal connectivity and enhance Armenia's role as a regional transit hub.
4. **Human Capital Development:** Key investments in education, healthcare, and social services to improve the quality of life for citizens. This includes reforms in the education system, improved healthcare accessibility, and stronger social protection mechanisms.
5. **Law and Justice:** The program includes measures to strengthen the rule of law, ensure judicial independence, and combat corruption, with an emphasis on providing justice and ensuring equal rights for all citizens.
6. **Institutional Development:** Enhancing the efficiency and transparency of government institutions, including through public administration reforms, decentralization, and the adoption of modern technologies to improve governance.

3.2 EBRD Reform Areas Broadly Agreed with Authorities

- Enhance economic diversification and connectivity by supporting local SMEs, diversifying the export basket, and positioning Armenia within major international corridors, including the Crossroads of Peace and Middle Corridor
- Foster capital market development, including through initiatives such as the EU-EBRD Capital Market Support Programme
- Increase renewable energy capacity, improving energy and resource efficiency, and investing in grid absorption capacity and energy storage solutions
- Address the needs of refugees with targeted financial and technical support to restore livelihoods and bolster community resilience.

3.3 Key Messages from Civil Society to EBRD

- CSOs emphasised the importance of inclusive, green, and sustainable development for Armenia, calling for national and international investments to boost the economy by enhancing public and private sector capacities, improving access to finance, promoting transparency, fostering economic inclusion, advancing digitalization, and supporting infrastructure initiatives.
- CSOs encouraged the Bank to green the economy and advance sustainable development by (i) investing in renewables, (ii) improving public participation and oversight, and (iii) fostering transparency of green initiatives.
- CSOs urged to increase civil society engagement, improve access to information, and enhance political participation.
- CSOs also advised to provide capacity building support to civil society to strengthen national accountability and transparency. They called for stronger protection of civil society actors against all forms of pressure, retaliation, and reprisals.



4. Defining Armenia Country Strategy Priorities

What needs to change? (Country Diagnostic)	Can it be changed? (Political Economy)	What can the Bank do? (Institutional Capabilities)	Strategic Priorities (2025-2030)	What We Want to see in 2030
- Significant trade route limitations and limited connectivity due to geopolitical challenges and border restrictions on the east and west as well as landlocked geography, constraining access to markets, limiting exports and trade diversification - Low-value added products, particularly minimally processed concentrate and ore, make up half of exports - Financial markets remain underdeveloped - Human capital is underutilised, with labour market challenges tied to issues in quality and access to education - Women face high unemployment and low labour force participation, gender pay gaps, underrepresentation in managerial roles, challenges related to violence against women - Lack of institutional capacity within the public administration	- Increased government focus on trade diversification and efforts to attract investors in building modern smelteries and other capacities further in the value chain - The ongoing peace process might result in border openings and greater involvement in the Middle Corridor - Progress made in (post-) trading infrastructure, including via the introduction of the overnight repo trading platform - Government commitment to increase education spending to 4% of GDP by 2030 and implement measures to address labor market challenges - Positive strides made on gender equality with new legislation on sexual harassment and gender equality strategy recently adopted - Increased interest and commitment to improve public services, including through EU support and new public administration reform strategy	- EBRD can support transport and logistics infrastructure to enhance trade and connectivity - Expertise in expanding financial products and capital/money markets - Financial/advisory support for underserved segments, e.g., WiB - EBRD can promote skills-enhancing solutions and greater financial inclusion - Strong track record in supporting economic governance, commercialisation and corporate governance - Focused and operationally linked policy engagement to support institutional and business climate reforms to attract FDI	Support the Development of a More Inclusive and Competitive Private Sector	- Diversified and deepened financial intermediation - Strengthened enterprise performance and improved business climate - Increased economic diversification and connectivity
- Dependence on imported natural gas as the main energy supply and reliance on the ageing Armenian Nuclear Power Plant (ANPP), whose deteriorated infrastructure causes frequent energy losses - Energy-inefficient transport and residential sector - Limited financing, constrained energy trade routes and slow infrastructure development hinder progress on renewables - Slow implementation of tariff reform and inactive electricity trading market	- Ambitious NDC implementation plan to achieve 40% reduction in GHG emissions compared to 1990 levels by 2030 - Maximising renewables capacity, modernising and prolonging the life of the ANPP beyond 2026 as well as building a new nuclear power plant to replace the ANPP as key priorities of the new Energy Sector Development Strategic Programme for strengthening energy security by 2040 - Commitment to increase solar contribution to electricity generation as outlined in the Programme on Energy Saving and Renewable Energy 2022-30	- Strong track record supporting climate resilience and decarbonisation and developing low carbon pathways - EBRD can facilitate green investments and strengthen energy and resource efficiency - Considerable experience developing sustainable infrastructure via dedicated GET frameworks (e.g., Green Cities)	Accelerate the Green Economy Transition Through Support for Sustainable Infrastructure	- Increased energy efficiency and decarbonisation - Improved quality, resilience and inclusivity of municipal infrastructure - Increased energy security through a resilient and diversified energy mix

5. Activities and Results Framework (1/2)



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Priority 1: Support the Development of a More Inclusive and Competitive Private Sector

Key Objectives	Activities	Tracking Indicators
Diversified and deepened financial intermediation	- Strengthen intermediated financing of SMEs through dedicated credit lines and other instruments to PFIs, with a focus on green transition (GEFF), economic inclusion (WiB), and trade competitiveness (SMECI). Support PFIs in enhancing their corporate governance and explore opportunities to launch new products including Youth in Business (YiB), digital transformation and agri credit lines - Deploy diversified financial instruments, including risk sharing facility (RSF) and portfolio risk-sharing (PRS), trade finance and capital market instruments (e.g. various bonds) - Partner with PFIs to support the refugees and host communities through targeted credit lines aimed at sustaining livelihoods, addressing housing needs, facilitating entrepreneurship, and increasing MSME capacities to handle increased demand and labor supply - Look to support further development of money and capital markets, including through Capital Markets Support Programme - Promote gender-responsive policies and practices in the financial sector, including through the collection of sex-disaggregated SME data (WE- Finance Code)	- Volume / number of MSMEs/ Women in Business / Youth in Business / Refugees / SMECI / GEFF sub-loans disbursed - Volume / number of RSF/PRS transactions - Share of end-beneficiaries reporting improved productivity or turnover after support from PFIs
Strengthened enterprise performance and improved business climate	- Provide financing and deploy advisory services for SMEs via ASB, including on corporate governance, digital transformation and under WiB, facilitating compliance with international standards. Launch YiB advisory services - Strengthen human capital development by supporting market relevant skills and employment opportunities for all labour market segments including women, young people, refugees, people with disabilities, and the ageing population - Continue to support the investment climate, including through cooperation with the Investment Council - Strengthen capacity of the public sector, including via support on public procurement, project implementation, and digital transformation to enhance the business climate and accelerate private sector development - Continue strengthening early-stage technology ecosystem, including through Star Venture Programme and support for venture capital ecosystem	- Number of clients benefiting from EBRD direct financing or advisory services - Share of clients reporting improved productivity or turnover after financing, advisory service or training support
Increased economic diversification and connectivity	- Continue to promote greater economic diversification by introducing new products and services, supporting export-oriented companies and promoting high operational and environmental standards in agribusiness, tourism, IT services and other high-potential sectors - Support expansion and integration with regional value chains, including through financing for logistics facilities - Strengthen connectivity via enhanced transport through public and private projects, telecommunications networks and border-crossing infrastructure and support for international corridors, such as the Crossroads of Peace and the Middle Corridor	- Number of clients reporting increased export sales - Number/Volume of transactions increasing or improving national/cross-border infrastructure



5. Activities and Results Framework (2/2)



European Bank
for Reconstruction and Development

Priority 2: Accelerate The Green Economy Transition Through Support for Sustainable Infrastructure

Key Objectives	Activities	Tracking Indicators
Increased energy efficiency and decarbonisation	- Explore opportunities to promote decarbonisation and energy efficiency via technical and financial support to implement tariff reforms, develop low carbon pathways and support the implementation of Armenia's Nationally Determined Contributions - Support energy efficiency through direct and intermediated financing and advisory services in the corporate and residential sectors - Support financial sector actors in implementing green transition planning approach, align financing with NDCs/objectives of the Paris Agreement and the LTS, and incorporate climate risk management standards - Support decarbonisation in the corporate sector, including by supporting green finance and promoting adoption of corporate climate governance in line with international best practice	- CO2e emissions reduced (Ktonnes/year) - Number of PFIs or corporate clients improving climate and environmental practices with EBRD support - Number of new, refurbished or expanded low-carbon assets
Improved quality, resilience and inclusivity of municipal infrastructure	- Continue to finance sustainable and inclusive municipal and environmental infrastructure and related services, including in solid waste, water infrastructure, transport, street lighting modernisation, energy efficient public buildings - Support capacity strengthening and digitalisation of infrastructure and municipal services - Support geographical and sectoral expansion of Green Cities Programme and continued implementation of existing projects - Look for opportunities to support disaster-preparedness and climate adaptation and mitigation	- Number of transactions increasing or improving municipal infrastructure capacity, goods and services - Number of individuals with improved access to municipal services
Increased energy security through a resilient and diversified energy mix	- Support enhancement of distribution and transmission networks, including cross-border interconnections and improved climate resilience - Explore opportunities to introduce energy storage solutions including as an adaptation option for climate-related physical risks - Scale-up support for solar/wind capacity and explore further diversification of energy generation sources - Explore opportunities to support the safe operation of the nuclear power plant and subsequent decommission - Promote inclusive climate action, including by increasing women's participation in the energy sector and in decision-making	- Renewable energy capacity installed (MW) - Renewable energy - electricity produced (MWh/year)



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

EBRD Business Areas															
		Sectors									Cross-cutting Themes				
		Corporate Sector					Sustainable Infrastructure		FI		Strategic Initiatives				
Indicative annual average annual investments/ grants (€m, 2019-2024)		Food and Agribusiness	Manufacturing & Services	Real Estate	TMT	Natural resources	Energy	Infrastructure	Banking	Non-Bank FIs	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business	
ADB	125			€	€		€P	€			€P	€P	€P		
EIB	94						€	€			€			€	
WB	61				€	€P	€	€			€P	€P			
IFC	60				€		€P		€		€P			€	
KFW¹	56						€	€	€		€			€	
EU²	52	€P		€P	€P		€		€		€	€		€	
AFD (incl. Proparco and EF)	46	€			€P		€		€		€P			€	
EBRD	172	€	€	€	€	€	€	€P	€	€	€P	€	€	€	

€ Area of significant investments

€ Focus mostly on private sector

P Area of significant policy engagement

○ Focus mostly on public sector

Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2019 until the end of 2024.

1. KFW numbers relate to 2018-2022 due to data availability issues. 2. EU data until end of 2023.

Potential Areas of Cooperation



Green

- Look for opportunities to cooperate on green projects, including with WB, IFC, EIB and EU



Competitive

- Foster partnership with the EU, the UK's GGF and others to address access to finance, foster public-private dialogue and strengthen private sector development



Integrated

- Seek cooperation with donors and IFIs to address increased external vulnerabilities



Inclusive

- Seek collaboration with partners, such as WB, on human capital development, and the design of complementary responses to increased refugee inflow



Well-Governed

- Pursue policy dialogue and TA to support business climate improvements in close coordination with partners



7. Implementation Risks and Environmental and Social Implications

Risks to the strategy implementation	Probability	Effect	Environmental and social implications
A deterioration in the regional security situation could undermine investor confidence and restrict business opportunities	●	●	Assessment and Management of E&S Impacts at sectoral and project level: Ensure that direct, indirect and cumulative impacts of projects are assessed and mitigated through E&S assessment in accordance with PR1. Particular focus on site/route selection for renewable energy and transmission network investments will be required. TC funding may be required to support clients in Environmental and Social Action Plan (ESAP) implementation, particularly in the public sector. Labour and Working Conditions: Ensure clients' HR policies and labour practices comply with EBRD ESP PR2 requirements, focusing on fair treatment, non-discrimination, non-harassment and equal opportunities of all project workers and will encourage improvement of sound worker-management relationship based on social dialogue. Support to clients needed to help them manage supply chain risks associated with renewable energy investments. TC funding may be required to support clients in managing key labour risks and conducting labour audits. Resource Efficiency and Pollution Prevention and Control: Support the development of renewable energy, energy efficiency, circular economy and hazardous waste management projects, including infrastructure and systems to encourage the implementation of the waste hierarchy, separation at source and recycle. Incorporate GIP and relevant EU standards into project design. Climate mitigation and adaptation measures to be aligned with national carbon-neutrality paths. Health and Safety: Occupational and community health and safety culture and practice, including monitoring through project appraisal and monitoring. Road safety and client fleet management are priority issues for transport projects and may require TC funds. Land Acquisition, Involuntary Resettlement and Economic Displacement: Strengthen provision to ensure meaningful stakeholder engagement with affected communities, particularly with government led land acquisition or land transfer. Special attention will be given to vulnerable populations, including ethnic minorities, internally displaced persons, and refugees, who may be disproportionately impacted by projects. Where occupiers have no legal titles, clients will need to ensure compensation and livelihood restoration are provided in accordance with national norms and the Bank's policy requirements. Biodiversity Conservation and Sustainable Management of Living Natural Resources: Renewable energy, municipal and transport infrastructure projects may encroach on or fragment sensitive habitats. Ensure that robust biodiversity impact assessments of projects in sensitive locations are carried out and provide TC support where needed to avoid or minimise these impacts or develop and implement offsets if required. Support the government and clients in the preparation and implementation of project-related biodiversity action plans and explore ecosystem recovery options. Cultural Heritage: Ensure support for the protection and conservation of cultural heritage through consultation with key stakeholders. Where significant elements of cultural heritage are identified, the Bank will promote awareness, appreciation, and enhancement of cultural heritage, as well as potential socio-economic benefits for local communities. Cultural Heritage Management Plans will be implemented for all high-risk projects involving impacts on heritage sites/objects. FI: Ensure that FI partners have adequate E&S capacity and risk management procedures in place. Institutional Strengthening and Capacity Building: Through TCs, EBRD will seek opportunities to build capacity within the public and private sectors, develop new environmental and social initiatives, and promote best practices aimed at addressing national, systemic environmental and social issues.
Insufficient levels of diaspora and non-diaspora FDI	●	●	
Vulnerability to climate change may negatively affect the viability of municipal infrastructure and agribusiness projects	●	●	
Currency instability may affect public debt affordability, public finances and asset quality for the banking sector	●	●	
Limited institutional capacity within the public administration may cause delays in the preparation and implementation of public infrastructure projects	●	●	

● High ● Medium ● Low

8. Donor Partnerships Assessment



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Needs Assessment for the New Country Strategy Period

To achieve the goals of the new country strategy, donor funds may be required to support several key activities:

- Risk-sharing instruments for the benefit of PFIs may be essential to improving access to financing for women and youth.
- Accelerating the transition to a green and sustainable economy could necessitate incentive grants and concessional loans to promote renewable energy generation, transition from high-emission sources, and enhance resource efficiency, while also strengthening energy security.
- TC grants are vital to finance advisory services for SMEs, support energy efficiency in the corporate and residential sectors and strengthen capacity of public administration in procurement, project management and digital transformation.
- Additionally, capex grants might be needed to finance sustainable and inclusive municipal and environmental infrastructure for affordable infrastructure, climate adaptation initiatives.

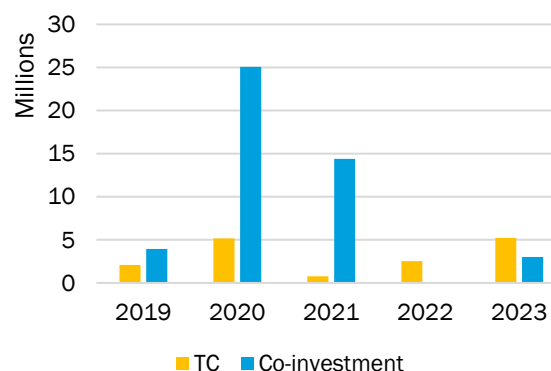
Potential Sources of Donor Funds

- The European Union is expected to continue supporting Armenia through the EFSD and EFSD+ instruments, focusing on municipal infrastructure, industrial resilience, digital transformation, renewable energy and financial inclusion. This will involve unfunded guarantees as well as TC.
- Continued involvement from key bilateral donors, such as Japan, Taipei China, and Luxembourg are anticipated in Armenia. These donors are likely to continue providing TC to support various developmental projects and policy reforms. Climate-related projects can receive assistance from the High-Impact Partnership on Climate Action (HIPCA).
- The Green Climate Fund (GCF), the Global Environment Facility (GEF), and the Climate Investment Funds (CIF) are expected to remain key for Armenia's climate-related projects with funds to provide concessional loans, support project preparation, implementation, and provide TC grants for policy advice, further strengthening climate resilience and sustainability efforts.
- Finally, concessional resources will continue through the Shareholder Special Fund, the Small Business Impact Fund, and the SME Local Currency Special Fund.

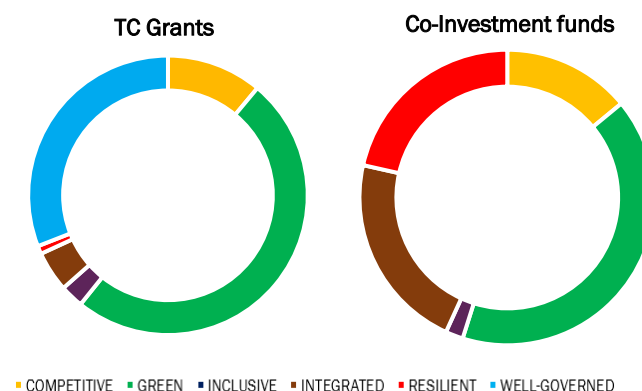
Selected Affordability Indicators

		EBRD regional percentile rank ¹
GDP per capita (PPP, current. \$) ²	21,343	41%
ODA Country	Yes	N/A
ODA as share of Gross National Income (%) ³	1.21	30%
ODA per capita (\$ - current prices) ³	47.2	38%

Donor finance during last strategy (€m)⁴



Use of funds in 2019-2023⁵



1. Simple percentile rank reported as the share of EBRD economies represented below Armenia. 2. WDI (2023) 3. OECD (2023) 4. Chart based on earmarks for 2019-2023. 5. Based on the primary Transition Quality of concessional resources.

Annex



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Annex 1 – Political Assessment in the Context of Article 1 (1/6)

Armenia has, over the previous Country Strategy period, remained committed to the application of the political principles as stated in Article 1 of the Agreement Establishing the Bank. The authorities have made progress in implementing reforms, in particular in the fields of justice and the fight against corruption. Improving gender equality and overcoming all forms of discrimination have remained, according to relevant international organisations, important challenges.

Throughout most of the previous Country Strategy period, Armenia has faced considerable challenges related to the difficult security context and high political polarization. The country held early parliamentary elections in June 2021, in which the ruling Civil Contract party reaffirmed its parliamentary majority (albeit a weakened one). The next parliamentary elections are due in 2026. Political tensions, including street protests, have nevertheless persisted. Security concerns and political polarization have been distracting from the reform programme adopted following the mass anti-government protests and a peaceful change of power in April-May 2018.

In spite of significant political and geopolitical pressures, Armenia has continued showing determination in making progress towards political reforms. While challenges remain, further measures have been taken to improve the rule of law, implement the police reform, strengthen the independence, efficiency and accountability of the judiciary, and reinforce anti-corruption mechanisms. An important step was the adoption of the National Human Rights action plan 2023-2025.

Commending Armenia for its accomplishments, relevant international organisations have at the same time been underlining the importance of continuing the reform process, while ensuring full compliance with democratic principles and human rights. The need to make additional efforts to improve the human rights situation in the country has been emphasised, in particular regarding the elimination of domestic violence, hate speech and discrimination on all grounds that have remained important challenges.¹

In its recent ambition to diversify its foreign policy, Armenia has signalled its intention to strengthen and deepen its partnership and cooperation with the EU, based on common values. To this end, the two sides agreed in February 2024 to launch work on a new EU-Armenia Partnership Agenda, establishing more ambitious joint priorities for cooperation across all dimensions. The new Partnership Agenda will also aim to unlock the full potential of the Comprehensive and Enhanced Partnership Agreement (CEPA) concluded in November 2017.² In July 2024, the EU has launched a dialogue with Armenia on the liberalisation of the visa regime.

Free Elections and Representative Government

Free, fair and competitive elections

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

1: PACE: The honouring of obligations and commitments by Armenia, Resolution 2560, 26 June 2024; EU-Armenia: Joint statement on the 5th meeting of the Partnership Committee, Yerevan, 12 June 2024; European Commission (EC): Partnership Implementation Report on Armenia, Brussels, 9 February 2024; and 13th EU-Armenia Human Rights Dialogue, Yerevan, 19 January 2024.

2. EU-Armenia: Joint press statement following the 5th meeting of the Partnership Council, 13 February 2024.

Annex 1 – Political Assessment in the Context of Article 1 (2/6)

During the previous Country Strategy period Armenia held early parliamentary elections in June 2021, in the aftermath of anti-government protests following the signing of a ceasefire statement with Azerbaijan in November 2020. The OSCE/ODIHR-led International Election Observation Mission (IEOM) concluded that the elections “were competitive and generally well-managed within a short timeframe. However, they were characterized by intense polarization and marred by increasingly inflammatory rhetoric among key contestants.”³

Responding to the long-standing international concerns, Armenia has reformed its Electoral Code, in accordance with the recommendations of the Venice Commission and the OSCE/ODIHR. While welcoming the amendments and commending the authorities for the inclusiveness and transparency of the legislative process, relevant international organisations have invited Armenia to implement the outstanding recommendations regarding the electoral framework, in particular related to the misuse of public resources and the financing of political parties.⁴

Separation of powers and effective checks and balance

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

Armenia is a parliamentary republic with executive power vested in the prime minister as the head of government. The PM proposes candidates for his deputies and all ministers, coordinates their work, and determines the main directions of policy of the government. The PM also heads the Security Council. The National Security Service, Foreign Intelligence Service and State Protection Service are under the direct subordination of the PM.

The president, who is the head of state but whose powers have been reduced to mainly ceremonial and representative by the constitutional amendments following the December 2015 referendum, is elected by the parliament for one term of seven years. The current president was elected in March 2022, following the resignation of his predecessor.

The legislative power is vested with the National Assembly (parliament), elected through a close-list proportional system within a single nationwide constituency for a term of five years and composed of least 101 MPs. A “stable parliamentary majority” defined as 54% of seats is needed to form a government. In the event that the winning party or alliance obtains at least 50% of seats plus one but falls short of 54%, it will be assigned additional seats in order to obtain the required stable majority. Should a winning party or alliance receive more than two-thirds of the initially allocated 101 seats, other contestants that won seats are assigned additional seats to reach a collective one-third minority. A total of 107 seats were attributed following the June 2021 early elections.

The Constitutional Court, composed of 9 members, administers the constitutional justice. In 2020, the situation around the Constitutional Court, when a conflict emerged with respect to the Court’s composition and challenges related to its altering, was a subject of domestic tensions and international concern.⁵

While democratic checks and balances exist, they could be strengthened further, in particular the parliamentary oversight.

3. OSCE/ODIHR Election Observation Mission: Republic of Armenia, Early Parliamentary Elections, 20 June 2021, Final Report, Warsaw, 27 October 2021, p. 1.

4. PACE: Resolution 2560, 26 June 2024, paragraphs 8 and 11.

5. EC: Partnership Implementation Report on Armenia, Brussels, 16 December 2020, pp. 9-10.

Annex 1 – Political Assessment in the Context of Article 1 (3/6)

Effective power to govern of elected officials

Elected officials have effective power to govern. Civilian authorities have generally maintained effective control over military and security forces.

Civil Society, Media and Participation

Scale and independence of civil society

Armenia's civil society has remained diverse and strong. There are over 5,600 public organisations and over 6,000 foundations registered in Armenia, although many of them are inactive. Civil society organisations (CSOs) are actively involved in the country's developments, including providing an important role in monitoring anti-corruption commitments.⁶ Nonetheless, CSOs sometimes face operational challenges. The country's civil actors, advocating for human rights of vulnerable and marginalised groups, could be subjected to hate speech.⁷ Although there are no limitations for CSOs in terms of seeking and using funding from various sources, access to local funding remains a challenge with most CSOs relying on foreign donor support.

Independence and pluralism of media operating without censorship

The media landscape in Armenia is diverse. Television remains the primary source of political information, especially outside the capital, although the role of social networks is growing rapidly. While the media environment is pluralistic, Armenian media is characterised by strong polarisation which mirrors that of the political scene.

Public television is perceived as having a pro-government editorial policy. Many private broadcasters have strong political affiliations. Most media, affiliated with major political and commercial interests, continue to face pressure for their editorial policy. Despite the decriminalisation of defamation and the implementation of legislation that guarantees the transparency of media ownership, Armenia's legal framework does not sufficiently protect freedom of the press, and it also falls short of European standards. Armenian media organisations were concerned about amendments to the Civil Code in 2021 increasing the maximum fines for defamation.⁸

Multiple channels of civic and political participation

Armenian citizens generally enjoy multiple channels of civic and political participation. Public consultation on new legislative acts is mandatory and access to information is reasonably comprehensive, but there is room for improvement. Many state institutions are not cooperating to provide sufficient and comprehensive information to journalists and the public in the required period of time. The Law on freedom of information has shortcomings and relevant international organisations welcomed the decision to present a new draft. The EU and GRECO have been encouraging more meaningful participation of civil society in public consultations on legislative proposals and in the early stages of decision-making.⁹

6. GRECO: Armenia Evaluation Report, Fifth evaluation round, 18 April 2024, p. 8.

7. EC: Partnership Implementation Report on Armenia, 9 February 2024, p.13.

8. EC: Partnership Implementation Report on Armenia, Brussels, 17 May 2022, p.6; Partnership Implementation Report on Armenia, 9 February 2024, p. 4; PACE: Resolution 2560, 26 June 2024, paragraph 20; OSCE/ODIHR EOM: Early Parliamentary Elections, 20 June 2021, Final Report, pp. 3, 17. PACE: Progress of the Assembly's monitoring procedure (January - December 2024), Resolution 2580, 27 January 2025, paragraph 4.1.

9. EC: Partnership Implementation Report on Armenia, 9 February 2024, p.4; EU-Armenia: Joint statement on the 5th meeting of the Partnership Committee, Yerevan, 12.06.2024; PACE: Resolution 2560, paragraph 19; GRECO: Armenia Evaluation Report, Fifth evaluation round, pp. 25-26, 71.

Annex 1 – Political Assessment in the Context of Article 1 (4/6)

Freedom to form political parties and existence of organised opposition

Armenia has a multi-party system. Ideological pluralism and freedom of political parties to operate freely are guaranteed by the Constitution and implemented in practice. A total of 21 political parties and four alliances contested the early parliamentary elections in June 2021. Three entered the parliament, including two opposition alliances. Opposition parties are able to campaign freely and oppose government initiatives. However, the excessive polarisation prevents cooperation between the ruling majority and the opposition and leads to the stigmatisation of political opponents from all sides, boycotts by the opposition of the work of the parliament and the extensive use of qualified majority decision by the ruling coalition.¹⁰

Rule of Law and Access to Justice

Supremacy of the law

Supremacy of the law is enshrined in Armenia's Constitution, and necessary legislative and institutional safeguards are in place. The right to a fair trial is also envisaged in the Constitution, although the remaining challenges in the judiciary weaken this right. The ratification of the Rome Statute of the International Criminal Court (ICC) in November 2023 was an important step in fostering a culture of accountability.¹¹

Independence of judiciary

The Armenian Constitution prohibits any interference with the administration of justice that shall be exercised only by courts in compliance with the Constitution and laws.

In July 2022, the Armenian government approved the 2022-2026 strategy for judicial and legal reforms and its accompanying action plan. Overall, some progress has been achieved in the area of justice reform over the previous Country Strategy period, including the introduction of integrity checks for judges, approval of appointment procedures for judges, and adoption of amendments to the Judicial Code to enhance the independence and transparency of the justice system. At the same time, challenges have persisted, and further steps are needed to strengthen the independence of judges and accountability of the justice sector.¹²

Government and citizens equally subject to the law

The Constitution guarantees the equality of all citizens before the law. This principle has over the previous Country Strategy period been generally respected. Steps have been taken to address impunity and improve the accountability of law enforcement, including reforming the police. The adoption of new Criminal and Criminal Procedure Codes in 2021 was seen as an important improvement. Strengthening the independence in the public prosecution service remains a task.¹³

Effective policies and institutions to prevent corruption

The Armenian authorities have over the previous Country Strategy period continued to demonstrate strong determination to fight corruption. Specialised anti-corruption bodies, including the Anti-Corruption Court, were either established or reformed. Anti-corruption policy and framework have been strengthened.

10. PACE: Resolution 2560, paragraphs 12-14.

11. EC: Partnership Implementation Report on Armenia, 9 February 2024, p. 2.

12. Ibid., p. 6; PACE: Resolution 2560, paragraphs 15-17; PACE: Resolution 2580, paragraph 4.1.

13. EC: Partnership Implementation Report on Armenia, 9 February 2024, pp. 6-7.

Annex 1 – Political Assessment in the Context of Article 1 (5/6)

The new anti-corruption strategy and the resulting action plan for 2023-2026 were adopted in October 2023. Transparency International's Corruption Perceptions Index (CPI) 2023 identified Armenia as a "significant improver", measured by the country's achievements since 2018 (Armenia scored 47/100 in 2023 compared to 35/100 in 2018). In 2023, Armenia was ranked 62nd in the CPI out of 180 countries.¹⁴ Nevertheless, weaknesses in Armenia's anti-corruption framework are still present, including business integrity (weak compliance), conflicts of interest (lack of a clear regulatory system), the lack of independence in the public prosecution service, and limited enforcement of corruption offences.¹⁵

Civil and Political Rights

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

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

Armenia completed the third cycle of the UNHCR Universal Periodic Review (UPR) in 2020. Of 252 recommendations received, the country supported 239 recommendations (an increase of 54% compared to the 2nd cycle in 2015).¹⁶

In an important step, Armenia adopted in September 2023 a new human rights strategy and the National human rights action plan for 2023-2025. In November 2023, the country ratified Protocol 13 to the European Convention on Human Rights, concerning the abolition of death penalty in all circumstances.

Commending Armenia for positive developments, relevant international organisations called on the country to further improve the human rights situation, especially regarding discrimination on all grounds and hate speech.¹⁷

Political inclusiveness for women, ethnic and other minorities

The Armenian Constitution stipulates that discrimination on all grounds is prohibited. Nevertheless, domestic violence, hate speech and discrimination based on sexual orientation and gender identity, that are sensitive to Armenian society, remain Armenia's main challenges in the field of human rights.¹⁸

The Law on equality has been under discussion by the government since 2020 but has still not been adopted. The lack of proper regulations and poor police capacity lead to ineffective investigations into hate crimes against LGBTIQ people.¹⁹

14. Transparency International: Corruption Perceptions Index 2023.

15. EC: Partnership Implementation Report on Armenia, 9 February 2024, pp. 6-7; PACE: Resolution 2560, paragraph 18. The adoption of the Corporate Governance Code by the Ministry of Economy in July 2024 and of Amendments to the Civil Code by the parliament in May 2024 are aimed at addressing some of these weaknesses.

16. UNHRC: UPR – Armenia, Third Cycle, Report of the Working Group, 18 March 2020

17. EC: Partnership Implementation Report on Armenia, 9 February 2024, p. 3; 13th EU-Armenia Human Rights Dialogue, 19 January 2024; PACE: Resolution 2560, paragraph 6.

18. UNHRC: UPR – Armenia, Third Cycle, Report of the Office of the United Nations High Commissioner for Human Rights, 13 November 2019

19. EC: Partnership Implementation Report on Armenia, 9 February 2024, p. 5.

Annex 1 – Political Assessment in the Context of Article 1 (6/6)

Gender equality and women's empowerment remain critical issues. Although women and girls comprise 52.2% of the population in Armenia and account for 56% of those with a higher education, they are underrepresented in decision-making positions and in public office, despite the recent appointment of the country's first woman Prosecutor General and a 30% quota for women in political parties (the increase from 25% in the 2018 parliamentary elections). Only two ministers are female in the current government consisting of the PM, two DPMs and 12 ministers. In the current parliament, 35.5% of deputies are women – a notable improvement compared to 24% in the previous parliament. The new draft gender-equality strategy is currently being developed. Violence against women and domestic violence continues to be a concern.²⁰ In a positive step, the Criminal Code, revised in 2021, provides for criminal responsibility for domestic violence and for more severe sentences for perpetrators, including imprisonment. At the same time, Armenia has yet to ratify the Istanbul Convention, signed in 2017.

The amendments to the draft law on freedom of conscience and religious organisations were expected to be approved in the first half of 2022, but no progress has been made to date. Contemporary Armenian society is largely ethnically homogeneous. The law provides for up to four seats in the parliament reserved for each of the four largest national minorities (Yezidis, Russians, Assyrians and Kurds).

Freedom from harassment, intimidation and torture

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

In its Preliminary Observations on the recent periodic visit to Armenia, the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) praised excellent cooperation with authorities and noted that the situation with ill-treatment had generally improved as compared to the 2019 periodic visit, not least due to the entry into force of the new Criminal Procedure Code in 2022. However, the CPT delegation also noted some allegations of recent physical ill-treatment of persons detained by the police and of the excessive use of force at the time of apprehension.²¹

20. Ibid., pp. 4-5; OSCE/ODIHR EOM: Early Parliamentary Elections, 20 June 2021, Final Report, pp. 3, 6, 12.

21. CPT: Preliminary Observations on the periodic visit to Armenia from 12 to 22 September 2023, Strasbourg, 1 March 2024.