

**REPUBLIC OF ARMENIA**  
**2004-2006 MEDIUM-TERM PUBLIC**  
**EXPENDITURE FRAMEWORK**

**Yerevan, 2003**

**THE MESSAGE OF THE GOVERNMENT  
OF THE REPUBLIC OF ARMENIA**

IN CONNECTION WITH THE PUBLICATION OF THE  
2004-2006 MEDIUM-TERM PUBLIC EXPENDITURE  
FRAMEWORK OF THE REPUBLIC OF ARMENIA

## **ECONOMIC AND SOCIAL OBJECTIVES OF THE GOVERNMENT**

The Government of the Republic of Armenia has developed the 2004-2006 Medium-Term Expenditure Framework of the Republic of Armenia, presented for public judgment herein. The framework has been based on the key strategic priorities of the Government, as defined by the Poverty Reduction Strategy Paper (PRSP) and by the Government's Action Plan approved by the National Assembly of the Republic of Armenia on June 12, 2003.

This framework is based on the development of democracy and the formation of civil society, the strengthening of the legal state and of the civilised market economy, the establishment of social justice, and guaranteeing the country's security.

### ***Medium-Term Expenditure Framework Objectives***

The key objectives of the Medium Term Expenditure Framework are to strengthen the management of the state and to establish the basic pre-requisites for assuring the overall prosperity of the nation. These objectives will be achieved through the implementation of reforms and the execution of development programmes in a number of key sectors.

The framework expounds the basic provisions of the Government's macroeconomic and fiscal policy and presents the associated long- and medium-term indicators. It describes the planned reforms and development programmes (objectives, activities, expected outcomes, and beneficiaries), as well as identifying their financial implications.

It should be noted that, in order to implement the programmes in accordance with the priorities determined by the Government, there is a need to supplement budgetary funds from other sources, basically through official external transfers and borrowings. This will be the case not only in the short-term, but also in the medium- and long-term.

However, the objective of maintaining a sustainable level of public debt, significantly restricts the Government's expenditure opportunities. Under these conditions, it is even more crucial for the Government to base its activities on a balanced and realistic medium-term expenditure framework, consistent with its identified priorities. This framework will become one of the key tools for attaining the Government's objectives. It will also provide the underlying economic and fiscal criteria for preparing the 2004 draft State Budget.

Given the importance of the sustainability of fiscal policy, long-term fiscal principles have been developed by the Government. These will serve as guidelines in preparing the 2004-06 MTEF and in drafting the 2004 State Budget. The Government intends to achieve these principles in the long-term, as insufficient revenue and expenditure pressures limit the opportunities for achieving them in the short-term. However, these principles will serve as the basis for developing and implementing short- and medium-term policies, which are consistent with the long-term objectives.

### ***Long-Term Fiscal Objectives***

In the long-term (until 2015), the Government anticipates that:

- (i) The nominal value of GDP will increase around 2.9 times between 2002 and 2015. As a consequence, it is also envisaged that tax revenues of the consolidated budget will be 3.7 times higher in 2015 than in 2002.
- (ii) In line with the growth in revenues, public expenditure will also increase. Their nominal value will increase 2.9 times between 2002 and 2015. At the same time, reflecting the need to control the level of public debt and the budget

deficit, the ratio of budgetary expenditures to GDP will not change significantly. It will range between 25.0% and 25.5% of GDP. These expenditures will be increasingly targeted towards the social sector.

- (iii) The burden of public debt will gradually decrease. In parallel, the share of interest payments related to debt servicing in overall budget expenditure will also decrease (from 4.6% in 2002 to 2.7% in 2015).
- (iv) The average level of capital expenditures financed from the budget will be maintained at around 4.0% of GDP between 2004 and 2015. The structure and orientation of public capital expenditure will complement, not replace, private sector investments. Public sector capital expenditure will be targeted at the rehabilitation and reconstruction of the country's social and productive infrastructure.
- (v) Expenditure will continue to be greater than revenue in the formation and execution of the budget over the 2004 to 2015 period. However, a policy of gradually reducing the budget deficit will be pursued. As a result, the fiscal deficit will decline from 2.4% of GDP in 2002 to 1.6% of GDP in 2015.

### ***Short-Term and Medium-Term Fiscal Forecasts***

In order to determine the level of total expenditure for the next three years, the Government has compared its expenditure priorities with the long-term fiscal principles. Based on forecasted State Budget revenues of 17.9% of GDP in 2004, as well as the ability to finance a fiscal deficit of 2.6% of GDP (which is 0.6 percentage points less than the planned deficit in 2003), the Government plans to maintain expenditure at 20.5% of GDP, or 330.4 billion drams, in 2004. In the medium-term, the ratio of the fiscal deficit to GDP is anticipated to gradually decrease, to 2.23% and 2.01% in 2005 and 2006, respectively.

At the same time, budget revenue as a percent of GDP is forecast to continuously increase to 18.1% and 18.3% of GDP in 2005 and 2006 respectively. Positive trends will also be seen in the sphere of public debt.

The ratios of some key medium-term fiscal indicators to GDP are presented in the table below.

<b>Indicators</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>1. Revenue and official transfers</b>	<b>19.47%</b>	<b>17.93%</b>	<b>18.13%</b>	<b>18.29%</b>
<b>2. Expenditure</b>	<b>22.68%</b>	<b>20.53%</b>	<b>20.36%</b>	<b>20.30%</b>
- <i>Current expenditure</i>	15.35%	15.22%	16.07%	15.94%
- <i>Capital expenditure and net lending</i>	7.33%	5.31%	4.29%	4.36%
<b>3. Sources for deficit financing</b>	<b>3.21%</b>	<b>2.60%</b>	<b>2.23%</b>	<b>2.01%</b>
<b>4. Public debt</b>	<b>42.67%</b>	<b>43.02%</b>	<b>40.67%</b>	<b>38.51%</b>
- <i>External debt</i>	40.06%	40.43%	38.07%	35.89%
- <i>Internal debt</i>	2.61%	2.59%	2.60%	2.62%

### **EXPENDITURE PRIORITIES**

Taking into consideration the above issues, the Government has identified the following key priorities for State Budget expenditures for the coming years:

- (i) Ensuring financial support of reforms in certain branches of the social sector (in particular, education, health, social security and social insurance), and in public administration, where reforms aim to improve the effectiveness and efficiency of

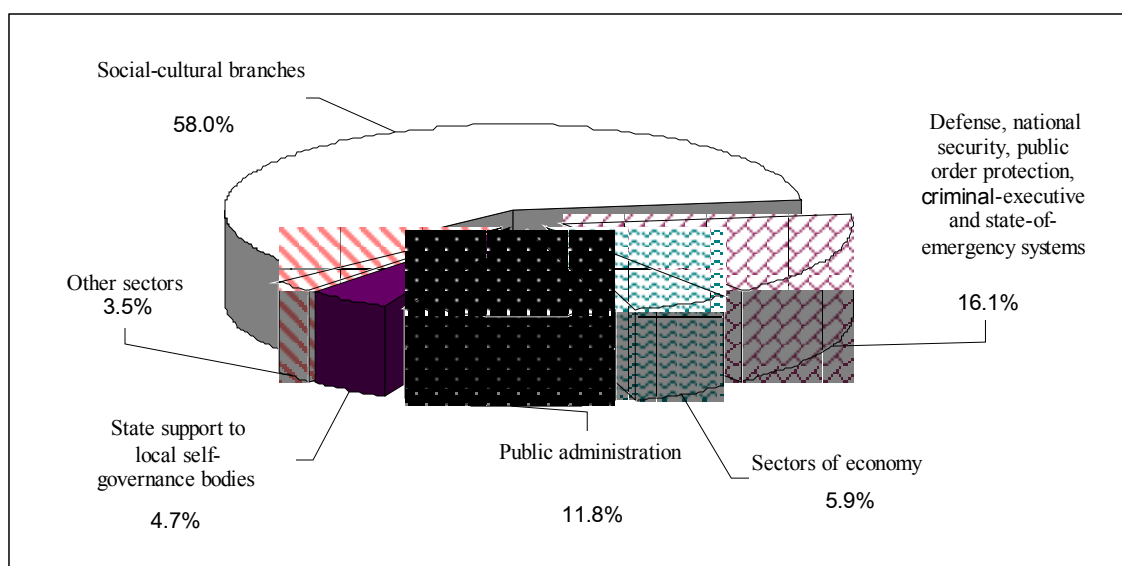
Government expenditure and the targeting of expenditure to priorities, as well as enhancing the availability of services to the public;

- (ii) Ensuring financial support of the regular activities of defence and national security institutions, in order to maintain the territorial intactness of the Republic, regional stability, and the balance of forces in the Karabagh conflict;
- (iii) Implementation of programmes to rehabilitate and develop infrastructure in certain sectors of economy (particularly, in the agriculture, water, road and energy sectors).

The table below presents expenditure for the main sectors or functions as a share of total expenditure between 2003 and 2006.

Indicators	2003	2004	2005	2006
1. Social-cultural branches	30.17%	32.91%	36.03%	38.86%
2. Defence, national security, public order protection, criminal-executive and state emergency systems	18.35%	20.21%	20.51%	19.87%
3. Economic sectors	28.87%	25.83%	20.69%	19.44%
4. Public administration	6.94%	8.57%	9.59%	8.99%
5. State support to local self-governance bodies	2.74%	3.24%	3.78%	3.56%

As shown in the table, the distribution of budgetary resources is fully consistent with the Government's medium-term expenditure priorities presented above.



The Government's strong determination to pursue these objectives is also shown in the chart above. This chart highlights the distribution of additional budgetary resources (as compared with 2003) for the period of 2004-2006.

In our opinion, this distribution of budgetary resources, combined with the implementation of reforms and development programmes in a variety of key sectors of the country, will create the basis for poverty reduction, human capital rehabilitation, sustainable economic development, and strengthening the financial position of the country. Through enhancing the country's competitiveness in the international arena, these reforms will enable Armenia to gain its rightful position in the modern world, and to achieve the Government's long-term objectives.

Full mutual understanding and close collaboration between the authorities and society will underpin the realisation of these objectives.

The Government hopes that the publication of this framework will attract due attention and consideration by the public and will disclose the Government's general and sector policies for macroeconomic and fiscal regulation in the medium-term, as well as the need for their implementation, and the expected outcomes.

PRIME MINISTER  
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A. MARGARYAN

MINISTER OF FINANCE AND ECONOMY  
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V. KHACHATRYAN

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**LIST OF ABBREVIATIONS**

VAT	Value Added Tax
PREDP	Poverty Reduction and Economic Development Plan
WTO	World Trade Organization
PRSP	Poverty Reduction Strategy Paper
IMF	International Monetary Fund
USA	United States of America
CIS	Commonwealth of Independent States
IDA	International Development Agency
c.m.	Cubic Meter
SAC	Structural Adjustment Credit
Km	Kilometre
Ha	Hectare
Thsd	Thousand
ANOC	Armenian National Olympic Committee
ROA	Republic of Armenia
NA	National Assembly of the Republic of Armenia
ED	Emergency Department of the Government of the Republic of Armenia
NSS	National Statistical Service of the Republic of Armenia
PTA	Public Television of Armenia
PRA	Public Radio of Armenia
WB	World Bank
NGO	Non-Government Organisation
CB	Central Bank of the Republic of Armenia
GDP	Gross Domestic Product
AIDS	Acquired Immuno-Deficiency Syndrome
UN	United Nations
MTEF	Medium-Term Expenditure Framework
HIV	Human Immuno-Deficiency Virus
Mln	Million
Bln	Billion
NTD	Normative-Technical Document
SE	State Enterprise
SNCO	State Non-Commercial Organisation
SCJSC	State Closed Joint-Stock Company
CPI	Consumer Price Index
SSTA	Social Service Territorial Agency
OECD	Organisation for Economic Collaboration and Development
IT	Information Technologies
CJSC	Closed Joint-Stock Company

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## **INTRODUCTION**

There has been increasing clarification of the role of the state, and the mechanisms for state intervention, in economic development in the Republic of Armenia in recent years. This is of fundamental importance to further economic development, in respect of both issues of market failure and equity or income redistribution. At the current stage of economic development, there is also a need for enhanced medium-term (and long-term) strategic planning. In particular, one of the priority tasks on the agenda for the Armenian authorities is the reduction of poverty in the country. For this purpose, the Poverty Reduction Strategy Paper (PRSP) has been developed, with the participation of different levels of authorities and of a number of non-governmental organisations and independent experts. Integrating medium-term expenditure planning into the budget process has an important role in tackling poverty and, over the last three years, reform steps have been taken in this direction.

Nevertheless, the development of the 2004-2006 medium-term expenditure framework has been somewhat different - both in organisational and in essential aspects - from previous attempts (for the 2001-2003, 2002-2004 and 2003-2005 periods). Firstly, the development of the framework, in contrast with the preceding ones, has been closely integrated with the budgeting process. In terms of content, the 2003-2005 medium-term expenditure framework concentrated on issues in four sectors of the economy that are strategically important for the country's economic development (those being education, health care, social security and water economy). In comparison, the 2004-2006 medium-term expenditure framework, on the basis of accumulated experience, has been developed for all functional classifications of budgetary expenditures. The focus on the medium-term expenditure framework in the budgeting process emphasises the political importance of the document, which will become a subject of discussion for executive and legislative governance bodies, as well as for the general public, thus contributing to the transparency of the authorities' intentions and activities in the sphere of public finances. It is also worth mentioning that a comprehensive and coordinated medium-term expenditure framework should provide a strategic framework, and negotiations relating to involvement of international financial assistance will be conducted within the scope of that framework.

### ***Objective and Tasks***

Budgeting in the Republic of Armenia has, as a rule, been on an annual basis. However, for a higher-quality definition of public expenditure policy, there is also a need to



consider the macroeconomic environment, the scope of available resources, and the expenditure needs of Government programmes over the medium-term (and for the long-term, if possible). In terms of public expenditure management, budgets developed and executed on an annual basis have certain limitations. In particular, they are based on short-run macroeconomic forecasts; there is no clear-cut relation between implemented policies and budgetary expenditures; and, as a rule, supervision is focused not on the anticipated results (quality of provided services), but on the amount of expenditures.

The main objective of the medium-term expenditure framework (MTEF) is enhancement of the efficiency of the public expenditure management system.

In essence, the efficiency of the public expenditure management system can be assessed by means of three indicators:

- (i) Overall fiscal discipline – The budget resource envelope should be clearly identified and accurately formulated; it should be formed prior to the allocation of expenditures and should be based on sustainable medium-term macroeconomic forecasts;
- (ii) Strategic allocation – Public expenditure should be consistent with public policy priorities, and the system should enable inter-sectoral and intra-sectoral redistribution of resources from lower priorities to higher ones, and from low efficiency programmes to higher efficiency ones;
- (iii) Technical efficiency – Sectoral ministries (departments) should assure the maximum attainable level of efficiency, comparable with the productivity of the private sector.

The introduction of medium-term expenditure planning seeks to solve the following problems:

- (i) Improve the fiscal position within the macroeconomic framework, through realistic and comprehensive forecasting of resources (revenues);
- (ii) Support the allocation of resources to Government priorities, both between and within sectors.
- (iii) Improve the linkages between policy and budgeting, so as to contribute to improvement in the quality of future planning;
- (iv) Establish robust budget ceilings by sector, while creating the conditions and incentives for the effective and efficient use of available resources by sector ministries (departments);
- (v) Improve the system of evaluation of budgetary programmes, and enhance the level of transparency of public expenditure management.

*Medium-term Public Expenditure Planning Approaches*

The planning of medium-term public expenditure is an on-going process and, in essence, represents a complete logical chain of “policy formulation – planning - budgeting”. It enables the reconciliation of available resources with expenditure needs, as well as the reflection of policy changes in the budgets of the relevant sectors. In this respect, the MTEF is developed before the elaboration of the draft annual budget, so that it can provide guidance for the formulation of the annual budget.

Planning of medium-term public expenditure implies:

- (i) Comprehensive assessment of the budget resources consistent with a sustainable economic environment;
- (ii) Estimation of the expenditure needed for implementation of policies;
- (iii) Reconciliation between available resources and expenditure needs, through relevant mechanisms.

*Organisational Basis for Development of the 2004-2006 MTEF*

Regulation of the process for developing the 2004-06 MTEF has been implemented through the ROA Law “On the Budgetary System of the Republic of Armenia”, through the Decree of the ROA Prime Minister No 809 “On Starting the Budgeting Process of the Republic of Armenia for the year 2004” dated December 20, 2002, and through the Methodological Instructions of the Ministry of Finance and Economy developed on the basis of the provisions of that Decree.

In essence, such an approach reflects the fact that the Armenian authorities consider the medium-term expenditure framework as a component of the budget process, thus also emphasising the political importance of this document.

One of the crucial pre-requisites for development of the framework is the formation of the relevant institutional structures. The gradual improvement of these structures will contribute to the enhancement of the quality of future MTEFs.

It is worth mentioning that, by the Decree of the ROA Prime Minister No 346-N “On Starting the Budgeting Process of the Republic of Armenia for the Year 2003” dated June 7, 2002, the organisational basis for the 2004-2006 MTEF process has been created, and the MTEF Committees, as listed below, have been established:

- (i) The MTEF Steering Committee (with the ROA Prime Minister as the chairman of the Committee), to be engaged in the monitoring of the development of the framework and strategic decision-making;
- (ii) The Co-ordination Committee to co-ordinate the process of development of the medium-term expenditure framework (with the First Deputy Minister of

Finance and Economy as the chairman), in order to develop the medium term expenditure framework.

This approach implies strengthening the role of sector ministries in the budgeting process. The accumulation of relevant experience should contribute to the improvement of budgeting and strategic planning at the sector level by enhancing the consistency between policies and available financial resources. In this context, co-ordination between the Ministry of Finance and Economy and the sector or line ministries is very important, as both the process of draft budget formulation and budget execution is highly dependent on it.

**PART A**

**FISCAL POLICY**

## **CHAPTER 1. STRATEGIC AND MEDIUM-TERM PRIORITIES AND OTHER IMPLEMENTATION**

### **STRATEGIC AND MEDIUM-TERM PRIORITIES**

The key strategic objectives of the Government are identified in the Poverty Reduction Strategy Paper (PRSP) and the Government's Action Plan approved by the National Assembly on June 12, 2003. In conformity with these documents, during the forthcoming years more emphasis will be placed on the following priorities in State Budget expenditures (in the context of this framework, priority sectors are defined as those sectors being allocated considerable portions of additional budgetary funds, or being financed through loan resources).

- (i) Ensuring financial support of reforms in certain branches of the social sector (in particular, education, health, social security and social insurance), and in public administration, where reforms aim to improve the effectiveness and efficiency of Government expenditure and the targeting of expenditure to priorities, as well as enhancing the availability of services to the public;
- (ii) Ensuring financial support of the regular activities of defence and national security institutions, in order to maintain the territorial intactness of the Republic, regional stability, and the balance of forces in the Karabagh conflict;
- (iii) Implementation of programmes to rehabilitate and develop infrastructure in certain sectors of economy (particularly, in the agriculture, water, road and energy sectors).

Furthermore, it should be noted that, not only in the short-term, but also in the medium- and long-term, there will be a need to supplement budgetary funds from other sources, basically through official external transfers and borrowings. Given this need, as well as the objective of maintaining a reasonable level of public debt, the Government's expenditure opportunities will be significantly restricted.

### **OBJECTIVES OF MEDIUM-TERM EXPENDITURE FRAMEWORK**

The medium-term expenditure framework (MTEF) is one of the key tools for addressing the Government's objectives. This document, which presents the Government's fiscal policy in conjunction with sector medium-term expenditure frameworks, constitutes the ROA Government's medium-term expenditure framework (MTEF).

In this Fiscal Policy Statement, the overall long-term fiscal principles, medium-term and short-term fiscal indicators, and the strategic expenditure priorities are presented. They provide the underlying economic and fiscal criteria for preparing the 2004 draft State Budget.

## **FISCAL PRINCIPLES AND INDICATORS**

### ***Long-Term Fiscal Principles***

Given the need for a sustainable fiscal policy, long-term fiscal principles have been developed by the Government, which will guide the preparation of the MTEF and the draft State Budget. The Government intends to achieve these principles in the long-term, as insufficient revenue and expenditure pressures means that it has limited opportunities for implementing them in the short-term. However, they will serve as a basis for evaluating the consistency between the Government's long-term objectives and current policies.

It the long run, it is anticipated that:

- (i) The nominal value of GDP will increase around 2.9 times between 2002 and 2015. It is also anticipated that tax revenues of the consolidated budget will increase 3.7 times. As a consequence, the ratio of revenue to GDP will grow from 22.6% in 2002 to the projected 23.9% in 2015 (or by 1.1 percentage points). There will also be significant changes in the source of revenues. In particular, revenues from external sources (official transfers) will continue to decrease, accompanied by increases in tax and non-tax revenues. These increases in revenues from domestic sources are dependent on achieving the projected high rates of economic growth, and on the planned reform for improving tax administration.
- (ii) Along with the increase in revenues, expenditure of the consolidated budget will also grow. Their nominal value will increase 2.9 times between 2002 and 2015. At the same time, due to the need to control public debt and the budget deficit, the ratio of budget expenditure to GDP will not change significantly. It will range between 25.0% and 25.5% of GDP. These expenditures will be increasingly targeted towards the social sector, with expenditures on salaries and transfer payments in the social sector growing at a faster rate than other expenditures.
- (iii) The burden of public debt will gradually decrease. As a result, the percentage of interest payments related to debt servicing in overall budget expenditures will also decrease (from 4.6% in 2002 to 2.7% in 2015).
- (iv) The average level of capital expenditure financed from the budget will remain at around 4% of GDP over 2004-2015 (in the next few years the need for budget-financed capital expenditures will be even stronger). The function and structure of capital expenditures will not replace private investments. Instead, state and private expenditures will complement each other. State capital expenditure will

be targeted at the revival and reconstruction of Armenia's social and productive infrastructure.

- (v) Expenditure will continue to exceed revenue in the formation and execution of the budget over 2004 to 2015. Moreover, the deficit will be financed from both domestic and external sources. The budget deficit will gradually reduce, from 2.4% of GDP in 2002 to 1.6% of GDP in 2015.

***Short-Term and Medium-Term Fiscal Indicators***

In order to determine the level of total expenditure for the next three years, the existing expenditure priorities have been matched with the long-term fiscal principles. Based on the projection that State Budget revenues will be 17.9% of GDP in 2004, as well as the scope for financing a deficit of 2.6% of GDP (which is 0.6 percentage points less than the planned deficit for 2003), the Government plans to maintain expenditure at 20.5% of GDP, or 330.4 bln drams. In the medium-term, the ratio of the state budget deficit to GDP is anticipated to continue to gradually reduce to 2.23% and 2.01% of GDP in 2005 and 2006 respectively.

At the same time, the ratio of State Budget revenues to GDP will continuously increase, to 18.1 % and 18.3 % of GDP in 2005 and 2006 respectively. The ratio of state budget expenditure to GDP will decrease by 0.1 percentage points in 2005, but increase again in 2006, exceeding the 2004 ratio by 0.1 percentage points. Expenditure will be 18.96% and 19.07% of GDP in 2005 and 2006 respectively.

There will also be positive trends in the sphere of public debt. Under the conditions of the present restructuring of non-concessional loans, the increase in external debt will not have a significant impact on the solvency of the country, since a number of qualitative indicators will either remain largely unchanged, or undergo positive changes. In particular, the ratios of external debt to GDP and the present value of external debt to GDP will decrease; interest payments as a proportion of external debt will also decrease (mainly due to restructuring of some non-concessional external loans). Together with the considerable increase in tax revenues, such improvement will contribute to the alleviation of the external debt-servicing burden of the budget. The sustainable increase of export operations, in conjunction with the maintenance of the relatively stable level of external debt servicing and repayment, will result in a significant improvement in the external debt interest/export and external debt servicing/export ratios.

## CHAPTER 2. MACRO-ECONOMIC FRAMEWORK OF MTEF FOR 2004-2006

Over the last nine years, since 1994, sustainable economic growth has been recorded in Armenia. The economy has grown at an average annual rate of 6.68%. However, despite this growth, the economy has not recovered to the level before the deterioration of the first three years of the transition period. At the end of 2003 GDP will be 89.3% of the level recorded in 1990, and, assuming the same average growth rate is achieved, it will only surpass the 1990 level in 2005.

Based on recent economic developments, it can be assumed that, due to the stable macroeconomic environment and ongoing structural reforms implemented by the Government accompanied with external financing, high rates of economic growth can be ensured for the planned period (6% on average per annum).

The base scenario of macroeconomic forecasts has been developed on the basis of the SAC-V, PRGF, and PRSP programmes, implemented by the Government in co-operation with the World Bank, and the International Monetary Fund, as well as on the basis of the Government's Action Plan. The scenario suggests full implementation of the policies and tasks anticipated under these programmes.

Forecasts for the main macroeconomic indicators for the MTEF period are given in the table below.

**Table 2.1. Main Macro-Economic Indicators**

Indicator	2000	2001	2002	2003	2004	2005	2006
	<i>Actual</i>			<i>Planned</i>	<i>Forecast</i>		
Economic growth, %	5.9	9.6	12.9	7.0	6.0	6.0	6.0
Inflation, %	-0.8	3.1	1.1	3.0	3.0	3.0	3.0
GDP deflator, %	-1.4	4.0	2.3	1.5	3.0	3.0	3.0
Budget deficit/GDP, %	4.8	4.2	2.5	3.3	2.6	2.2	2.0
Current account (excluding official transfers) /GDP, %	-19.9	-12.7	-8.5	-8.7	-7.9	-7.4	-7.0
Exchange rate, Armenian dram/US dollar	539.5	555.1	573.4	586.4	589.3	592.2	595.2

With respect to the main macroeconomic indicators for the planned period, the following developments have been forecasted:

- (i) Actual GDP will increase steadily. GDP is forecast to increase by 7% in 2003 and by 6% per annum over 2004-2006.
- (ii) Consumer prices will be stable; i.e. their average annual increase will be 3%.
- (iii) By 2006 the ratio of investments (to GDP) will have grown by around 1.3 percentage points from the 2002 level, and will equal 20.8% of GDP. At the same time, there will be a more dramatic increase in national savings (it is



projected to increase by 2.2 percentage points of GDP between 2002 and 2006). This, in turn, will contribute to reducing the investments/savings gap.

- (iv) By 2006, total State Budget revenues (without capital grants) as a percent of GDP will have increased by 0.7% from the planned 2003 level to 17.1%. Major changes will also take place in the structure of budgetary revenues due to the growth of tax revenues (their share in GDP will increase by 1.2 percentage points to 16.2%). During the same period, State Budget expenditures will grow at a slower rate, which, in turn, will result in a reduction in the budget deficit.
- (v) The volume of exports of goods and services (denominated in dollars) will grow at a higher rate than that of imports (on average 9.5% and 7.7% per year). This will be one of the factors contributing to the improvement of the current account position.

## REAL SECTOR

### Gross Domestic Product by Sectors of Economy

Average economic growth of 9.4% has been recorded over the last three years. At such a high rate of economic growth, structural changes have taken place in GDP and in the qualitative parameters of economic growth. Some key sectors, such as industry and construction, have made a major contribution to the growth of the economy. In 2002 the economy grew by 12.9%, with the share of industry and construction representing 7.7 percentage points.

An economic growth rate of 7% is anticipated in 2003, with a deflator of 1.5%. The average annual growth of gross domestic product (GDP) for 2004-2006 is forecasted to be 6.0%. This growth will reflect the increase of both domestic and external demand.

In recent years, growth rates of the construction sector have been notably higher than the economy average. The share of construction in GDP has increased from 6.7% in 1994 to 12.8% in 2002.

Shares of the key sectors of the economy for the planned period are given in Table 2.2.

**Table 2.2. Structure of GDP by Key Sectors of the Economy (Percent of GDP)**

Indicators	2001	2002	2003	2004	2005	2006
	<i>Actual</i>		<i>Planned</i>	<i>Forecast</i>		
Industry	20.1	20.4	20.5	20.9	21.1	21.1
Agriculture	25.5	23.6	23.0	22.3	21.3	20.6
Construction	9.7	12.8	15.2	14.3	14.5	14.9
Transport and Communications	7.0	6.7	6.5	6.5	6.5	6.5
Trade	10.2	10.3	9.9	10.3	10.4	10.5
Other sectors	17.8	16.4	15.5	15.7	15.9	15.6
Net indirect taxes	9.7	9.7	9.5	10.1	10.4	10.8
Total GDP computed at market prices	100.0	100.0	100.0	100.0	100.0	100.0

The growth in the industrial sector is connected with the growth in the construction sector. In addition to growth in the traditional branches of industry, such as the production of precious metals and the food industry, there has also recently been growth in the production of non-metal mineral products and mining industry, which are directly related to the construction sector.

The industrial sector is forecast to grow at an annual rate of 7% over 2004-2006. Higher rates of growth are anticipated in the export-oriented branches (production of valuables, food and light industries).

In recent years, production of agricultural products, which has a major share in domestic consumer demand, has tended to grow steadily. Thus, in 2001 the demand for consumption of eggs has been fully met by domestic producers, whereas in meat consumption imports have comprised around 19% of consumption. The dependence of horticulture on climatic conditions explains why agriculture has only averaged growth of 5.0% per annum over the last three years. The share of agriculture in GDP has shown a decreasing tendency over the last few years, which is due to its low growth rates in relation to other sectors. The forecasted average annual growth for 2004-2006 is 2.3%.

The real growths of the key sectors of economy for the planned period are given in Table 2.3.

**Table 2. 3. Real Growth of Key Sectors of Economy (Percent)**

Indicators	2001	2002	2003	2004	2005	2006
	<i>Actual</i>		<i>Planned</i>	<i>Forecast</i>		
Percentage real growth of GDP, including	9.6	12.9	7.0	6.0	6.0	6.0
Industry	3.9	14.2	6.0	8.0	7.0	6.0
Agriculture	11.7	4.4	2.6	2.8	1.6	2.5
Construction	4.8	47.0	25.7	-0.4	7.1	9.0
Deflator index, %	104.1	102.3	101.5	103.0	103.0	103.0

### ***Gross Domestic Product by Expenditure Components***

For the first time in 2002, the consumption component of expenditure GDP was less than total GDP (96.6% of GDP)<sup>1</sup>. It is anticipated that GDP will be 6 percentage points greater than consumption by 2006. However, absorption (consumption plus investment) will remain higher than GDP. This implies that net exports will remain negative. The negative value of net exports is forecast to decrease, to around 14% of GDP by 2006. In 2004-2006 the share of investments in GDP will average 20.6%, and will be financed from both domestic and foreign sources.

The expenditure structure of GDP for the MTEF period is given in Table 2.4.

**Table 2.4. Nominal GDP Expenditure Structure (Percent of GDP)**

<sup>1</sup> The statistical deviation is included in final consumption.

Indicators	1994	2001	2002	2003	2004	2005	2006
	<i>Actual</i>			<i>Planned</i>	<i>Forecast</i>		
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consumption	110.3	101.7	96.6	93.4	94.6	94.3	93.3
Investments	23.4	18.6	20.7	22.6	20.6	20.4	20.8
Net export	-33.8	-20.4	-17.3	-16.0	-15.2	-14.6	-14.1

### ***Consumer Prices***

The consumer price index was 102.0% in December 2002, in comparison to 102.9% in the same period of the previous year. The price index of food products (including alcoholic beverages and tobacco) was 101.9%. For non-food products and service tariffs it was 102.7% and 101.5, respectively.

In 2000-2002, the annual average increase in consumer prices was 1.1%.

During 2004-2006, monetary policy of the Republic of Armenia will be targeted at maintaining inflation at around 3% per annum.

### **EXTERNAL SECTOR**

Over the last few years, economic programmes for the external sector have placed special emphasis on the medium-term improvement of the current account of the Balance of Payments, through the establishment of a favourable investment environment and the expansion of exports via the implementation of structural reforms. Despite the existing difficulties, this challenging task is being addressed. In 2002 Armenia became a member of the World Trade Organization. This was the most important factor contributing to the growth of exports. This event was preceded by the harmonization of Armenia's trade policy with international rules. Although Armenia's membership in the WTO will not have a major impact on exports in the short-term, it will be the key impetus for the long-term development of export capacities.

There has been a positive trend of increasing net exports in recent years. On one hand, such a shift reflects the replacement of imports. On the other hand, it has also occurred as the result of expanding export operations. In the medium-term, growth is expected in the export-oriented branches of the economy. New mechanisms for supporting these branches will be developed and implemented, and the existing ones will be improved.

### ***Export***

There has been an accelerated increase in the growth rate of exports since 2000. In 2000-2002, the average annual volume of exports was US\$382 million, basically due to the increase in the value of the "Precious and Semi-Precious Stones, Metals and Items Made of Them" item. However, it should be noted that, thanks to the growth of various sub-branches of the industry, favourable conditions have been created for export diversification. It is anticipated that in 2003-2006 the average annual value of exports of

goods will be around US\$670 million (FOB); representing average annual growth of 11% (denominated in dollars). The respective indicator for goods and services will be 9.5%, i.e., the export of goods will grow faster than that of services.

***Import***

The average annual value of imports has been around US\$810 million over 2000-2002, which is 12% higher than the similar indicator for 1999. In the medium-term, an increase in imports is forecast due to both an increase in disposable incomes, and to the need for importing raw materials and technologies financed by foreign investments. At the same time, the tendency in recent years of replacing imported goods with domestically manufactured ones will weaken, due to reduced replacement opportunities. As a result, in 2003-2006 average annual growth in the import of goods and the import of goods and services (denominated in dollars) will be around 7.8% and 7.7%, respectively.

***Factor Revenues and Transfers***

There has been a tendency for growth in the total value of factor revenues (remittances) and private transfers since 1999. Thus, their average value for the last four years has been US\$162 million. Factor revenues and private transfers will, over 2003-2006, be significantly influenced by the servicing of the external debt of the Republic of Armenia, the reinvested earnings on direct investments, and trends in economic growth in the key partner countries of the Republic of Armenia. As a result of these factors, in the medium-term, net factor revenues and transfers will tend to decrease.

At the initial phase of structural reforms, official foreign transfers have played a crucial role in the financing of gross demand. During 1995-2002, the ratio of official transfers in GDP has reduced from 12% (1995) to 2.3% (2002). In the medium-term, current official transfers will average approximately 2% of GDP.

***Current Account***

In 1995-1998, the current account deficit (excluding official transfers) has been increasing, from US\$368 million in 1995 to US\$515.2 million in 1998. During that period, the current account deficit has averaged around 27% of GDP. In 1999, the current account deficit (official transfers excluded) was US\$400.7 million, or 21.7% of GDP, primarily due to foreign trade flows, particularly, the abrupt decrease in imports. In 2000-2002, the current account deficit (excluding official transfers) has decreased significantly reduced to around US\$203 million by 2002. The current account deficit (excluding official transfers) was 8.6% of GDP in 2002. The current account deficit is forecast to be approximately 5.5% of GDP over 2004-2006.

## **CHAPTER 3. REVENUE POLICY AND FORECASTING**

### **MAIN CHARACTERISTICS OF MEDIUM-TERM REVENUE POLICY**

Disclosure of the characteristics of revenue policy and predictability of public revenues are of fundamental importance for the medium-term expenditure framework.

Revenue policy in the Republic of Armenia for 2004-2006 will be characterized by enhancement of public revenue performance, due to improvements in revenue collection. Reforms in tax administration should, however, be undertaken with the minimum possible impact on the incentives and performance of economic entities.

One of the most important tasks of revenue policy is to provide the financial backing for necessary public expenditures. In this regard, the role of tax policy<sup>2</sup> has been increasing and is particularly key at the moment. It is worth mentioning that tax revenues<sup>3</sup>, comprised 87% of total revenues for 2002, thereby financing 87% of state budget expenditures, as opposed to 70% in 1997.

Nevertheless, developments in tax policy have still not been sufficient to assure a high level of tax revenue collections. Tax revenues were only 14.6% of GDP in 2002, as compared to 16.1% in 1999.

Taking these indicators into consideration, as well as the advice of various international experts on the consistency of Armenia's tax base and tax rates (broader tax base, less privileges) with good international practice, it appears that there is still scope for increasing revenues without increasing tax rates. Revenue performance can still be improved through enhancement of administrative functions, as well as through registering and taxing unregistered entities.

Over recent years, developments in the tax system of the Republic of Armenia have been aimed at strengthening equitable, efficient, simple and clear-cut tax mechanisms in relations between the state and economic entities. Assuming that minimal legislative changes are introduced, an improvement in tax administration is anticipated over 2004-2006, minimising the volume of economic activities implemented outside of the control of tax authorities, and avoiding any increases in tax privileges. Simultaneously, changes in tax policy and administration will be focused on assuring favourable conditions for the equity of taxation, as well as the simplicity and impartiality of the applied taxation rules. Establishment of tax inspections for excise taxpayers, as well as for banks and lending organisations will contribute to improvement of the efficiency of tax administration.

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<sup>2</sup> Here and hereafter, the category of "tax policy" is used in a broad sense, also including custom duty policy.

<sup>3</sup> Here and hereafter, tax revenues include budgetary receipts from state duties.

Thus, improvement of tax administration should become the focal point of tax policy.

Tax policy for 2004-2006 will be also characterised by the establishment of an environment favourable for investment, which will contribute to an inflow of capital and modern technologies, increases in the volume of labour, production and export of goods.

To stimulate the inflow of investments, especially foreign investment, the Government faces the critical challenge of establishing equitable taxation practices, as well as eliminating discriminatory or biased policy towards selective taxpayers.

In order to strengthen horizontal equity, the policy of minimising differential treatment of selective taxpayers or to groups of taxpayers will be further pursued, through eliminating both tax discrimination and tax privileges.

There are also administrative risks in assuring proper supervision of legislative requirements in the free economic zones. International experience shows that the existence of free zones requires consistent implementation of proposed tax administration reforms; or risks of losses in public revenue will arise.

### **BUDGET REVENUE FORECAST FOR 2004-2006**

Budget revenues have been forecasted at 288.5 billion drams in 2004, 318.5 billion drams in 2005, and 350.8 billion drams in 2006. This level of annual revenues implies average annual growth of 7%, or 21.3 billion drams, which will largely be driven by better performance in tax revenues and state duties.

Macroeconomic forecasts, which have a significant impact on the calculation of the key revenue categories, have been used as the basis for forecasting budget revenues. In some cases, indicators regulated by contracts have also been taken into consideration. Forecasts of budget receipts, by basic groups of revenues, are presented in the table below.

**Table 3.1. Planned Budget Revenues for 2004-2006 (Billion Drams)**

<b>Revenue Category</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>State budget revenues and official transfers</b>	<b>288.5</b>	<b>318.5</b>	<b>350.8</b>
<i>Percent of GDP</i>	17.9	18.1	18.3
<b>Tax revenues and state duties</b>	<b>247.6</b>	<b>277.4</b>	<b>310.8</b>
<i>Percent of GDP</i>	15.4	15.8	16.2
<b>Non-tax revenues</b>	<b>7.3</b>	<b>7.4</b>	<b>7.6</b>
<i>Percent of GDP</i>	0.5	0.4	0.4
<b>Revenues from capital operations</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
<i>Percent of GDP</i>	0.02	0.02	0.02
<b>Official transfers</b>	<b>33.3</b>	<b>33.4</b>	<b>32.2</b>
<i>Percent of GDP</i>	2.1	1.9	1.7

If the database is subsequently updated then it may be necessary to revise these macroeconomic projections. These revisions could result in changes to the structure of tax revenue.

### **TAX REVENUE FORECAST FOR 2004-2006**

#### *Main Characteristics of Macroeconomic Environment*

The budget receipts from tax revenues for 2004-2006 have been forecasted by considering the impact of two key factors. The first factor is recent and expected trends in the macroeconomic environment and the second factor is possible changes to tax legislation and improvement of tax administration over the MTEF period. The forecasts are also based on the assumption that the 2003 Budget level of tax revenue (220.4 billion drams) will be achieved; and that the present legislative pre-requisites and administrative practices are sufficient for its collection.

**Table 3.2. Tax Revenues of 2002-2006 State Budgets**

Indicators	2002	2003	2004	2005	2006
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
Tax revenues (billion drams)	198.6	220.4	247.6	277.4	310.8
<i>Percent of GDP</i>	<i>14.6</i>	<i>15.0</i>	<i>15.4</i>	<i>15.8</i>	<i>16.2</i>
Coefficient of tax elasticity	1.14	1.27	1.34	1.31	1.31

Key macroeconomic indicators within the forecasted scenario of economic development over 2004-2006 will have a significant impact on revenue performance. One of the key indicators for the coming 3 years, is the forecast of 6% average annual growth of real GDP, although no significant changes are expected in the sectoral structure of nominal GDP: the share of value added tax, generated in agriculture – a basically tax-free component of GDP - and in construction – which is 80% financed by external sources will remain relatively stable, as will the share of net indirect taxes within GDP which – according to the trends of previous years will come to an average of 43.5%). A relatively favourable tax environment has been created in the sector of trade and catering, which comprises 10.4% of GDP, and the real growth rate of this sector will be faster than overall GDP.

The average annual growth rate of final consumption expenditure, which is directly related to the tax base for indirect taxes over 2004-2006, will be 9.2%, compared to 4.9% in 2003. Such a trend of economic development could create a sustainable tax base for indirect taxes, which comprise a significant component of tax revenues.

**Table 3.3. Changes in GDP and Final Consumption Expenditure**

Indicators	2001	2002	2003	2004	2005	2006
	<i>Actual</i>		<i>Planned</i>	<i>Forecast</i>		
Growth of nominal GDP	14.0%	15.4%	8.6%	9.2%	9.2%	9.2%

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Nominal growth of final consumption expenditures	6.4%	9.7%	4.9%	10.6%	8.8%	8.0%
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### Major Developments in Tax Revenues for 2004-2006

Given these macroeconomic trends, there will be an increasing emphasis on effective administration and the broadening of the tax base. Therefore, although there has not a separate discussion of legislative changes, administrative actions and their impact for 2004-2006 (there are certain difficulties with clarifying the actions and assessing their impact), the Government is aiming for a 5% average annual increase in tax collections over the planned period from this factor. Achieving this level of tax revenues will result in a stable tax elasticity coefficient, that is, 1% growth of GDP will be accompanied by annual average growth of tax revenues of 1.32%. However, taking into consideration the characteristics of receipts from fixed payments for gasoline and diesel oil, the impact of improved revenue administration on budget receipts from these revenue categories has not been taken into account. In terms of fixed payments for tobacco products, the impact has been taken into account only for 2004.

**Table 3.4. Tax Revenues of 2004-2006 State Budgets (Billion Drams)**

Indicators	2003	2004	2005	2006
Tax revenues by macroeconomic indicators and by 2001-2003 collection trends		240.2	260.0	279.2
Including the impact of administrative reforms	220.4	247.6	277.4	310.8
Impact of administrative reforms		4.0%	5.0%	6.0%
Tax elasticity coefficient	1.27	1.34	1.31	1.31

Tax revenues will increase by 1.2 percentage points of GDP over 2004 to 2006, increasing from 15% of GDP in 2003 to 16.2% of GDP in 2006.

**Table 3.5. Dynamics of Tax Revenues**

Indicator	2001	2002	2003	2004	2005	2006
	<i>Actual</i>		<i>Planned</i>	<i>Forecast</i>		
Tax revenues as percent of GDP	14.4	14.6	15.0	15.4	15.8	16.2
GDP by current prices, billion drams	1 175.5	1 356.9	1 474.1	1 609.4	1 757.1	1 918.4

No major changes are forecast in the structure of tax revenues for 2004-2006. As in previous years, indirect taxes will form the greatest share of tax revenues. However, the share of indirect taxes in total tax revenues will decrease over the next three years by 1 percentage point, from 73.1% in 2003 to 72.1% of tax revenue in 2006.

**Table 3.6. Changes in Ratios of Direct and Indirect Taxes**

Indicators	2001	2002	2003	2004	2005	2006
	<i>Actual</i>		<i>Planned</i>	<i>Forecast</i>		
Indirect taxes	74.5%	73.5%	73.1%	72.8%	72.6%	72.1%
Direct taxes	17.7%	17.4%	18.6%	19.0%	19.6%	20.5%
Other taxes	7.8%	9.1%	8.3%	8.2%	7.8%	7.4%



As a consistent methodological approach is used for forecasting tax revenues over 2004-2006, the following sections only present forecasts for 2004 tax revenues, with relevant quantitative indicators included for 2005 and 2006. In addition, forecasted receipts for 2004 are compared with their planned 2003 levels.

#### **TAX REVENUE FORECAST FOR 2004**

Tax revenues are forecast at 247.6 billion drams in 2004, which exceeds the estimated target level of 2003 by 12.3%. Tax revenues are forecast to increase faster than GDP, and the tax elasticity coefficient will reach 1.34.

##### Value Added Tax<sup>4</sup>

The majority of tax revenues, around 47.3%, will be generated through VAT. It is forecasted that 2004 revenues from VAT will be 117.2 billion drams, which exceeds 2003 VAT revenues by 13.6%. Forecasted VAT revenues in 2004 will be 7.3% of GDP, as opposed to 6.9% in the previous year.

In forecasting VAT revenues, receipts from VAT on fixed payments for gasoline, diesel oil and tobacco products have been calculated separately.

In forecasting other revenues from VAT, the actual base<sup>5</sup> of that tax category has been estimated. Calculations are based on macroeconomic forecasts of final consumption expenditure indicators, adjusted to reflect the fact that value added in certain sectors of GDP are not fully subject to VAT taxation.

In general, when estimating the actual tax base, it is also relevant to consider the extent of tax privileges. However, due to the lack of analysis on the extent of privileges, its impact on the tax base has not been estimated.

**Table 3.7. Actual Rate and Collection Indicators of VAT**

Indicators	2001	2002	2003	2004	2005	2006
	<i>Actual</i>		<i>Planned</i>	<i>Forecast</i>		
Actual tax base of VAT, billion drams	654.9	672.9	696.4	778.9	866.7	943.6
Revenues from VAT (without gasoline, diesel oil and tobacco), billion drams	66.4	76.4	85.9	99.9	116.8	134.8
Actual rate of VAT, %	10.1%	11.4%	12.3%	12.8%	13.5%	14.3%
Nominal rate of VAT, %	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Tax collection indicator, %	50.7%	56.8%	61.7%	64.2%	67.4%	71.4%

<sup>4</sup> Hereafter: VAT

<sup>5</sup> Hereafter: "Actual base" is the taxable share of GDP for a given tax category.

The actual tax rate (VAT revenue as a percent of the actual tax base)<sup>6</sup> was 11.4% in 2002 (the maximum level may be 20.0%). The actual tax rate (VAT as a percent of its tax base) was 56.8% in 2002, compared to the 61.7% budgeted for 2003. Growth of the actual rate for the coming years will be mainly driven by enhancements in revenues due to administrative improvements in the collection of VAT.

The key elements of the legislative framework for effective administrative of VAT already exist and a substantial improvement in the collection of VAT now depends on their consistent implementation.

More attention should be attached to the efficient use of information received from customs bodies. Assuring transparency of information in the key areas of custom control and transparency of the activities of the tax bodies is of fundamental importance.

#### Excise Tax

Excise tax revenues are forecast at 42.1 billion drams in 2004, 7.2% greater than 2003 revenue and comprising 2.4% of GDP.

The same approach to forecasting excise tax revenues has been taken as for VAT. That is, the shares of excise tax included in fixed payments for gasoline, diesel oil and tobacco products have been calculated separately.

Forecasts of excise tax collections on locally produced excisable goods have been based on actual sales (as declared by taxpayers) of the major excisable goods in 2002. It has been assumed that consumption of these types of products will increase in proportion to the real growth of final consumption expenditures. That is, the elasticity between final consumption expenditure and the growth of consumption of spirits will be equal to one. While the assumption is arguable (it is more likely that, in this case, the elasticity coefficient will be lower than 1), due to the unavailability of reliable data on previous years' performance, there has been no sufficient basis for an alternative assumption.

The second assumption is that there will be an increase in the declaration of excisable goods and an expansion of the tax base, due to an improvement in tax administration. This assumption is based on the fact that the ROA Government has been taking a number of actions (in particular, destruction of unduly marked excisable goods - introduced in 2002, improvement of the protection level of excise marks, etc), to strengthen the consistency of tax administration and bring positive outcomes in terms of revenues.

Because of the small amount of excise tax levied on imports of excisable goods (mainly, spirits), sophisticated approaches have not been used to forecast them. Instead forecasts

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<sup>6</sup> Hereafter: "Actual tax rate" is the ratio of actual or (forecasted) revenues to the actual tax base for a given tax category.

are based on the assumption that receipts from these collections will increase proportionally with the growth of imports.

*Fixed Payments (for Import of Gasoline and Diesel Oil, and for Tobacco Products)*

The significant share of fixed payments for imports of gasoline, diesel oil, and tobacco products within total tax revenues highlights the importance of their accurate estimation. In particular, fixed payments for these types of goods comprised 24.0% of annual budget receipts in 2002. In 2004, receipts from these revenue categories will amount to 54.1 billion drams, exceeding 2003 receipts by 5.8%.

*Fixed Payments for Import of Gasoline and Diesel Oil*

Fixed payments for fuel imports have been estimated through average monthly forecasts of imports, which, in turn, have been based on certain assumptions.

The first assumption deals with the quantity of vehicles in operation in Armenia over 2004-2006<sup>7</sup>. It has been assumed, that in the coming four years, the quantity of vehicles in operation will increase by 5 thousand units annually, of which 4.5 thousand will use gasoline, and the other 0.5 thousand will use diesel oil (these proportions have been calculated on the basis of 2002 technical examination data).

The next assumption implies that the annual consumption of fuel per vehicle for 2004-2006 will be equal to the planned 2003 level.

*Fixed Payments from Tobacco Products*

For the calculation of fixed payments from tobacco products, as in the preceding case, the total market volume (imports and local production, filter and non-filter) of tobacco products has been forecasted. Trends over 2002 are of special importance in this case. That is because since March-April 2002, as a result of the 10% increase of fixed payments for imported (filter) cigarettes, there has been growth in the consumption of locally produced filter cigarettes, accompanied by a reduction in imported quantities.

Thus, average monthly imports of tobacco for 2001 were 16.8 thousand boxes, whereas in 2002 tobacco imports have fallen to 14.1 thousand boxes. The same indicators for locally produced filter cigarettes equal 3.0 thousand and 16.3 thousand boxes, respectively. These 2002 indicators have been taken into account in forecasting revenues from this source over the MTEF period.

For comparison, it should be mentioned that in 2002 the total volume of the tobacco market amounted to a monthly average of 46.5 thousand boxes, as opposed to 57.4

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<sup>7</sup> The Police have provided the Ministry of Finance and Economy with data on the quantity of vehicles registered in the country.

thousand boxes in 1998. This means that the assumption of a 5% increase of those declared volumes in 2004, due to an improvement in tax administration, is not baseless.

In particular, using excise marks with a high level of protection, and the practice of destructing incorrectly marked excisable goods could contribute to the increase of declared quantities.

### Profit Tax

Budget receipts from profit tax have been forecasted at 23.6 billion drams in 2004 (1.5% of GDP), which represents an increase of 8.3% from 2003.

For forecasting profit tax revenues, the actual base of profit tax has been estimated on the basis of indicators from the article “Net Profit and Net Mixed Revenues of the Economy (by Sectors)” of the income account in the national accounts system. The net profit of the economy has been adjusted (reduced) by the calculated amount of the net untaxed profit of certain sectors (agriculture, construction, trade and catering, transportation).

In essence, the actual base calculated by the above-mentioned rules can be different from taxable profit, as the law on profit tax stipulates for a variety of privileges (basically, reduction of previous years’ loss and accelerated amortization). Nevertheless, these factors have not been taken into consideration in the planning, due to the absence of indicators that would allow an assessment of the impact of these privileges on tax revenues.

In forecasting profit tax for each year, the growth in the previous year’s actual base has been used, as advance payments of profit tax are determined on the basis of the previous year’s indicators.

Results of such estimation depict that the actual rate of profit tax, relative to the actual base, has declined from 9.3% in 2000 to 6.5% in 2001 and 6.2% in 2002. According to the forecasts for 2003, the actual rate will remain unchanged at around 6.8%. The tax collection level for 2003 will be around 34.2%.

**Table 3.8. Actual Rate and Collection Indicators of Profit Tax**

Indicators	2001	2002	2003	2004	2005	2006
	<i>Actual</i>		<i>Planned</i>	<i>Forecast</i>		
Actual base of profit tax, billion drams	243.0	280.5	304.8	332.8	363.3	396.7
Revenues from profit tax, billion drams	15.7	17.4	20.8	23.6	27.1	31.4
Actual rate of profit tax, %	6.5	6.2	6.8	7.1	7.5	7.9
Nominal rate of profit tax, %	20.0	20.0	20.0	20.0	20.0	20.0
Tax collection indicator, %	32.3	31.1	34.2	35.5	37.3	39.6

Positive trends are forecast in the actual base for profit tax in the coming three years. This is based on the following factors - forecasts of GDP growth, changes in the shares of sectors subject to tax deductions, as well as the impact of possible improvements in tax administration.

There is significant potential for growth in the actual rate of profit tax from improvements in tax administration, which is highlighted by the present low level of collections. Consistent implementation of the requirements of the present legislation (for example, in the case of taxpayer's overestimation of the loss to be calculated in accordance with the law), could support improvements in revenue performance for this tax.

#### Income Tax

Budget receipts from income tax are forecasted at 17.9 billion drams (1.1% of GDP) in 2004, an increase of 21.9% from 2003.

The method of forecasting income tax levied on remuneration of labour is, in essence, the same as the method for forecasting profit tax. The income tax base has been estimated on the basis of macroeconomic indicators. In determining the actual base, the structure of GDP has been considered, particularly the article "Remuneration of the Labour of Hired Employees" of the income account in the national accounts system. For further calculations, this indicator has been reduced by the total amount of minimum untaxed salary (20,000 drams) multiplied by the number of employed in the economy and of compulsory social insurance payments imposed on hired employees (3% of salary). The assumption that every employee receives at least 20,000 drams of remuneration (above the threshold of untaxed income) is not strictly correct. However, it is a close enough approximation and adjustment for this factor would not have serious implications for the forecast results.

According to these calculations, the actual rate of income tax for 2003 is around 3.6%. Even on the assumption that the distribution of wages is equal among the employed, and that the income of all the employed is only taxed at 10%, income tax collection indicator would be 35.8% in 2003.

The actual rate of income tax also has significant growth potential from improvements in tax administration. The first pre-requisite is that employers submit more detailed information on this tax category to the tax authorities, which would make it more difficult to under-declare the income paid by employers (due to non-inclusion in the reporting framework) more difficult. Declaration forms need further development, so as to oblige employers to submit data on wages paid to each citizen. There is also the need

to improve procedures for information exchange between tax and social insurance bodies, and for assuring comparability of databases of these two (which is necessary for creating better opportunities for collaboration in the use of automated systems).

Reducing the incidence of under-declaration of income paid by employers will also be sustained by legislative changes effected since April 1, 2003. Due to those changes, a system of Personal Identification Cards is being introduced into the sector of trade and services.

The forecasted amount of income tax to be collected from other sources of individuals' income is 1.7 billion drams in 2004. Indicators of the national system of accounts concerning the population's monetary income from the financial system, entrepreneurial activities and other sources, have been utilised for these calculations.

**Table 3.9. Income Tax (Billion Drams)**

Indicators	2001	2002	2003	2004	2005	2006
	<i>Actual</i>		<i>Planned</i>	<i>Forecast</i>		
Total income tax, including:	11.1	12.5	16.0	17.9	21.3	25.4
Income tax from remuneration of hired employees	9.8	11.2	14.5	16.3	19.5	23.5
Income tax from other sources	1.3	1.3	1.5	1.6	1.8	1.9

### Customs Duties

Budget receipts from customs duties have been forecasted at 13.0 billion drams in 2004 (0.8% of GDP), which exceeds 2003 duties by 9.7%.

As in the case of VAT revenue forecasts, the calculation of custom duties included in fixed payments for imports of tobacco products has been calculated separately.

For forecasting customs duty revenues from imports of other goods, the actual base has been estimated. To calculate the actual base, macroeconomic forecasts of imports have been reduced by the total custom value of precious stones, tobacco products, gasoline, and diesel oil.

Once again, there is significant growth potential for this tax category through improvements in tax administration. Joining the WTO has created the need to match custom procedures to the requirements of that organisation. The database of the ASYCUDA system will provide a comprehensive basis for applying the "by contract price" method of custom value determination. Introduction of a system of risk-based selective customs control has been of great importance. Control over privileges in the importation of goods by citizens at customhouses should be intensified. However, due to the absence of sufficient information for assessment of the short-run impact of these actions, they have not been considered in the estimation of revenues.

### Fixed Payments (for Types of Activities Defined by Law)

Budget receipts from fixed payments have been forecasted at 8.3 billion drams in 2004 (0.5% of GDP), which exceeds the 2003 level by 15.6%.

Actual receipts from this tax category in 2002 have surpassed the level of the previous year's collections by almost 2 billion drams, or by 43.6%. This high growth in revenue collections, which mainly reflects legislative changes, is not forecast to continue in coming years. Due to the macroeconomic environment and tax administration improvements, the average annual growth of revenues from this tax for the coming three years will be 13.2%.

Estimation of fixed payments have been made by different types of activities, on the basis of receipts over previous years, as well as the real growth rate of sectors such as services, trade or catering, within GDP.

This tax category will also be significantly influenced by improvements in tax administration.

#### *Simplified Tax*

Budget receipts from simplified tax have been forecasted at 5.2 billion drams in 2004 (0.3% of GDP), which exceeds 2003 revenues by 23.8%.

For forecasting revenues from simplified tax, receipts for the previous years, as well as the average nominal growth rate of the shares of trade, catering and service sectors within that year's GDP have been considered.

Moreover, the potential for collection of additional revenue through improvements in tax administration has also been estimated. Such an approach has been based on the fact that the average monthly amount of taxes paid in 2003 by retailers, who represent a major share of those paying simplified tax, has been around 20 thousand drams. This supports the idea of substantially increasing collection of revenues through improvement of control over income declaration.

#### *State Duties*

Budget receipts from state duties have been forecasted at 13.9 billion drams for 2004 (0.9% of GDP), which exceeds 2003 receipts by 8.5%.

Estimation of revenue from state duties has been made for different types of activities. Actual data on implemented transactions and levied amounts for previous years has been considered. In general, the real growth of GDP has been taken as the basic indicator for estimating revenues from this tax. This approach is necessary due to the volatility in the economic activities subject to state duties. Nevertheless, many of these activities are closely correlated with overall economic activity (for example, state duties from airport exit taxes, court claims, licensing fees etc).

Other Tax Revenues (Natural Environment Protection and Utilisation Payments, Property Tax, Land Tax, and Other Tax Revenues)

Budget receipts from other tax revenues have been forecasted at 6.3 billion drams in 2004 (0.4% of GDP).

Natural environment protection and utilisation payments comprise the largest share (around 71.2%) within receipts from other tax revenues, and estimations for them have been made by the same approach as for state duties.

### FORECAST OF NON-TAX REVENUES, REVENUES FROM CAPITAL OPERATIONS AND OFFICIAL TRANSFERS

Non-Tax Revenues: Non-tax revenues include allocations from the profit of the Central Bank, stock dividends, rental payments from the property of state-owned enterprises and reserve land outside the administrative territory of communities, payments (interest payments) from loans extended by the state, receipts from realisation of confiscated and ownerless property, or from property passed to the state by gift or by the right of succession, receipts from penalties imposed by executive and judicial bodies for violations of law, road fees and other non-tax revenues.

Non-tax revenues have been forecasted at 7.3 billion drams in 2004, 7.4 billion drams in 2005 and 7.6 billion drams in 2006.

Revenues from Capital Operations: Taking into account provisions of the ROA Land Code and of the ROA Law “On Local Self-Governance”, which stipulate that in 2003-2005 the state-owned land within the administrative territory of communities will be separated and, on the basis of layout designs, freely passed to communities for ownership, revenues from capital operations have been planned only for receipts from the disposal of buildings, accommodations, and from other operations, at 300.0 million drams annually.

Official Transfers: Based on initial agreements with donor organisations, official transfers have been forecasted at 33.3 billion drams in 2004, 33.4 billion drams in 2005, and 32.2 billion drams in 2006.

**Table 3.10. Official Transfers (Billion Drams)**

<b>Donor</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>Planned</i>	<i>Forecast</i>		
Total transfers, including those from:	61.0	33.3	33.4	32.2
Government of Holland	2.7	2.8	2.8	2.8
European commission (food programme)	5.5	5.6	0.0	0.0
European commission (loan repayment)	3.2	0.9	0.0	0.0
Government of Japan	0.4	0.4	0.4	0.4



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Lincy Foundation	46.6	23.7	24.4	23.8
Other sources	2.6	0.0	5.8	5.2

**CHAPTER 4. BUDGET FRAMEWORK****STATE BUDGET DEFICIT**

Expenditures will continue to exceed revenues in the State Budget in the coming years, with the budget deficit financed from both internal and external resources. The majority of the state budget deficit will be financed from borrowings, with the majority of externally borrowed resources being special-purpose funds directed to financing investment programs in social sectors and for infrastructure development. The state budget deficit is forecast to show a declining trend, from 3.2% of GDP in 2003 to 2.01% of GDP in 2006 (see Table 4.1).

**Table 4.1. Sources of Financing the State Budget Deficit, 2002-2006 (Million Drams)**

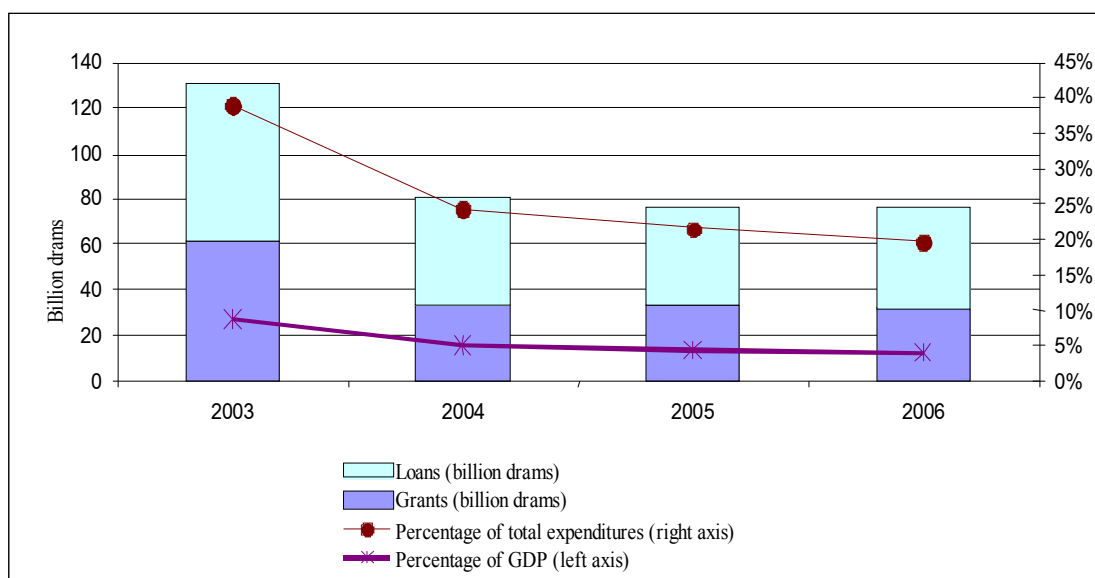
Indicators	2002	2003	2004	2005	2006
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
<b>Sources of deficit financing, total</b>	<b>35 594.5</b>	<b>47 258.8</b>	<b>41 899.9</b>	<b>39 200.0</b>	<b>38 619.1</b>
Including					
<b>1. Internal sources</b>	<b>-1155.3</b>	<b>1 317.5</b>	<b>2 675.0</b>	<b>3 625.0</b>	<b>4 275.0</b>
- Public bonds	3947.3	2 000.0	3 200.0	4 000.0	4 550.0
- Receipts from privatisation of state enterprises and incomplete constructions	944.6	0.0	0.0	0.0	0.0
- Other internal sources	-6047.2	-682.5	-525.0	-375.0	-275.0
<b>2. External sources</b>	<b>36 749.8</b>	<b>45 941.3</b>	<b>39 224.9</b>	<b>35 575.0</b>	<b>34 344.1</b>
- Receipt of loans	48 952.4	69 098.9	47 151.0	43 546.0	44 242.3
- Repayment of loans	12 202.6	23 157.6	7 926.1	7 971.0	9 898.2

The share of internal sources in the financing of the budget deficit is forecast to increase to 0.14% in 2003, and 0.24% in 2006 (mostly through receipts from the issue of public bonds).

Similar to Eastern European and CIS countries, the State Budget of the Republic of Armenia has been characterised by its dependency on external financing sources (foreign loans and official transfers). This dependency, although persistent within the MTEF period, is expected to show a declining trend (see: Chart 4.1).

The main sources of financing of the State Budget deficit are borrowed resources; therefore, their volume and structure have a significant impact on indicators characterising internal and external public debt.

**Chart 4.1. State Budget Financing from External Sources**



Financing of the state budget, in particular deficit financing, is still dependent on external loans and grants. Comparative analyses of alternative approaches to calculating the deficit confirm this fact (see Table 4.2).

**Table 4.2. Fiscal Deficit with and without external grants, Primary Deficit, and Current Deficit for 2003-2006 (Percent of GDP)**

Indicators	2003	2004	2005	2006
<b>Fiscal deficit, including external grants</b> Difference of total revenues and expenditures	3.21	2.60	2.23	2.01
<b>Fiscal deficit, excluding external grants</b> Difference of total revenues (without grants) and expenditures	7.34	4.67	4.13	3.69
<b>Primary deficit</b> Difference of total revenues (without grants) and expenditures (without interest payments)	6.43	3.90	3.44	3.05
<b>Current deficit</b> Difference of total revenues and current expenditures	-4.09	-2.64	-2.04	-2.33

As shown in the table, the fiscal deficit excluding external grants exceeds the deficit including external grants by an annual average of 82.5%. This means that the impact of grants on the deficit, on average, amounts to 1.88% of annual GDP.

The calculation of the current deficit, including only current revenues, highlights that revenues of the State Budget are sufficient for financing the most indispensable current expenditures over 2003-2006.

The comparison of the fiscal deficit with and without external grants shows the impact of interest payments for the servicing of public debt. The annual average share of interest payments within the deficit excluding external grants is 16.9%. Although increasing at an annual average rate of 1.6% (from 12.5% in 2003 up to 17.4% in 2006), due to the restructuring of non-concessional loans, it will be as much as two times smaller than the actual level over 1997-2001.

Domestic savings in the Republic of Armenia are forecast to grow for the next few years, which will enable the deficit to be financed from internal sources, while reducing interest rates. The state budget deficit will decline, averaging 2.28% of GDP between 2004-2006. Nevertheless, it will be mainly financed from external sources. In particular, capital expenditures for the development of industrial and social infrastructure will be mostly financed by external loans.

Reduction of the state budget deficit will be dependent on enhanced budget revenue performance; particularly, by the increase in collection of tax revenues and state duties (at an annual average growth rate of 0.4% of GDP over 2004-2006).

### **PUBLIC DEBT OF THE REPUBLIC OF ARMENIA**

The Republic of Armenia had no public debt in 1992-1993, when the first foreign loans were received (from the European Union and Russia). Following the first issue of domestic premium bonds in 1993 and the issue of short-term public bonds in 1995, the formation of the market of internal public debt began. The forecasted levels of public debt for the MTEF period are presented in the table below.

**Table 4.3. Public Debt of Armenia, 2002-2006 (Million US Dollars)**

Indicator	2002	2003	2004	2005	2006
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
Public debt, total	1 087.59	1 072.67	1 174.86	1 206.62	1 241.37
<i>Percent of GDP</i>	<i>45.98</i>	<i>42.67</i>	<i>43.02</i>	<i>40.67</i>	<i>38.51</i>
External debt	1 025.19	1 007.18	1 104.28	1 129.49	1 157.00
<i>Including the debt of the Central Bank</i>	<i>194.80</i>	<i>202.13</i>	<i>200.99</i>	<i>165.94</i>	<i>135.86</i>
Internal debt	62.40	65.49	70.58	77.13	84.37

#### External Public Debt

During 1999-2003, the Government successfully negotiated the restructuring of some of its non-concessional loans, which enabled their repayment at terms more favourable for the Republic of Armenia and without jeopardizing the country's solvency (the term of payment of the Turkmen loan of around US\$11.0 million has been prolonged, with partial repayments in the form of goods; also, Russian loans of US\$93.77 million have been repaid by passing certain enterprises to the Russian Federation).

**Table 4.4. Main Characteristics of External Public Debt, 2002-2006 (US Million Dollars)**

Indicators	2002	2003	2004	2005	2006
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
External debt of the Government	830.39	805.05	903.30	963.55	1 021.14
<i>Percent of GDP</i>	<i>35.11</i>	<i>32.02</i>	<i>33.07</i>	<i>32.48</i>	<i>31.68</i>
Present value <sup>8</sup>	488.98	434.47	452.94	459.08	458.68

<sup>8</sup> The present value of 1999-2001 debt has been calculated by lending programmes - applying respective discount rates to their currencies. Forecasts for 2002-2005 have been based on 2001 discount rates.

## 2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

<i>Percent of GDP</i>	<i>20.67</i>	<i>17.28</i>	<i>16.58</i>	<i>15.47</i>	<i>14.23</i>
Average effective interest rate	1.95	1.28	0.96	0.91	0.87
Share of concessional loans (%)	82.50	95.04	96.90	98.15	98.97
Servicing	48.32*	50.11*	22.48	22.69	26.00
<i>Principal</i>	<i>29.62</i>	<i>39.49</i>	<i>13.45</i>	<i>13.46</i>	<i>16.63</i>
<i>Interest</i>	<i>18.70</i>	<i>10.62</i>	<i>9.03</i>	<i>9.23</i>	<i>9.37</i>
Servicing / export (%)	6.91	6.53	2.68	2.47	2.58
Interest / export (%)	2.68	1.38	1.08	1.00	0.93
Servicing / GDP (%)	2.04	1.99	0.82	0.76	0.81
Interest / tax revenues (%)	5.40	2.82	2.15	1.97	1.79
Interest / state budget expenditures (%)	3.89	1.94	1.61	1.53	1.43

\* High level of servicing indicators reflects the repayment of the Russian debt.

Concessional loans from international financial organisations form about two thirds of the external debt for 1999-2002. These loans have mostly been channelled to replenishment of the Central Bank's reserves, supporting the Government's structural adjustment efforts, as well as to financing investment programmes in certain sectors (energy, housing and communal services, agriculture, transportation, etc).

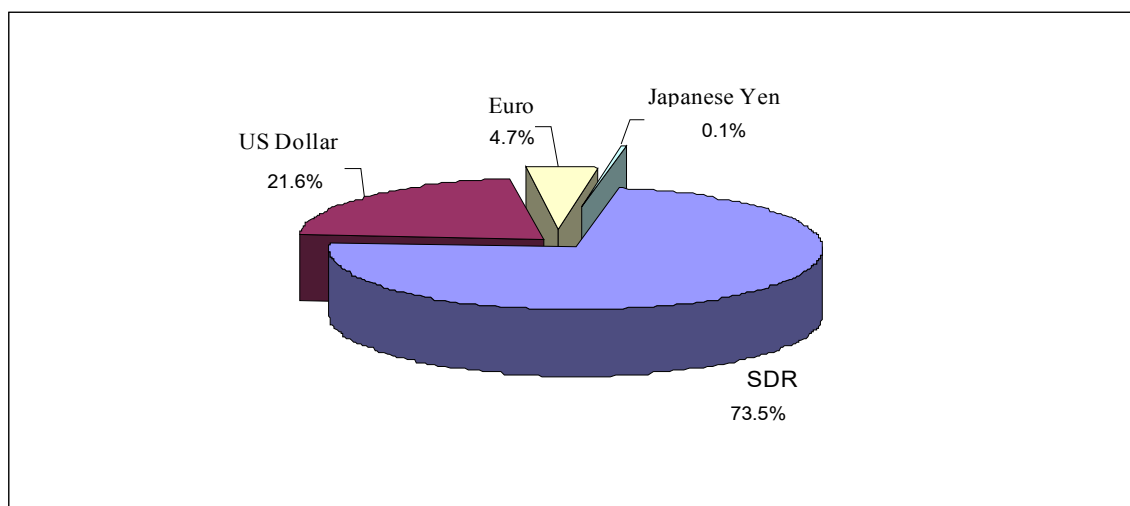
In terms of public debt management, the structure of the debt portfolio by loan currency is also very important. Although the currency structure of debt has not had a substantial impact on Armenia's external debt<sup>9</sup> burden, nonetheless, repeated reports of debt crisis (especially in South-East Asia in 1997-1998) compel more attention to this issue.

Given this, there is a need to closely monitor trends in international currency markets (for effective management of risks), and, in the future, in parallel with the strengthening of the European currency, also use the ratio of external debt servicing / export (expressed in euro), for evaluating the debt burden.

As shown in the table, assuming that non-concessional loans are restructured, expansion of external debt will not have a significant impact on the country's solvency, since a number of qualitative indicators will remain basically unchanged or change in a positive direction. In particular, ratios such as external debt to GDP and the present value of external debt to GDP will decline. Interest payments as a percent of external debt will also fall (mainly due to the restructuring of certain non-concessional loans), which, accompanied with the remarkable increase in tax revenues, will also contribute to abating the burden of external debt servicing.

### **Chart 4.2. Structure of External Debt, by Currency of Provided Loans**

<sup>9</sup> In contrary, the reduction of public debt in the 2000 State Budget was facilitated by the significant share of euro and SDR in the public debt portfolio (over 70%), and by their inflation with respect to the US dollar.



The sustainable growth of exports, paralleled with the relatively stable cost of external debt servicing and repayment, has resulted in a significant improvement in the ratios of external debt interest payments to exports and external debt servicing to exports.

These positive trends also reflect the Government's policy, that it is not expedient to undertake credit obligations with a less than 35% grant element.<sup>10</sup>

For the coming years, fiscal policy in the Republic of Armenia will be aimed at increasing the share of non-interest expenditures in the budget, with the burden of public debt remaining unchanged. This means that the present value of the increase in public debt over 2004-2006 cannot exceed economic growth; moreover, state budget revenues should increase faster than the increase in public debt.

It is practical to finance the budget deficit exceptionally from external concessional sources over 2004-2006 (the share of concessional loans is proposed to increase in the loan portfolio for 2004-2006). Later on, in parallel with the diminishing availability of external concessional sources, and with declining interest rates in the domestic market, internal sources of financing will surpass external financing. The increase in external debt should be accompanied with relative stability in the indicators evaluating the burden of external debt or, at least, the increase in external debt should be matched with a decrease in internal debt. This means that the interest rates of newly undertaken credit obligations should not exceed the actual average rate of the debt. Thus, the interest rate on the loans received for 2004-2006 is expected to be less than 1.5% (on average, 1%).

At the same time, it is advisable that new loans have a longer maturity term, which would reduce annual debt repayments and maintain the country's solvency.

The present value of external debt should grow at a slower rate than external debt itself.

<sup>10</sup> Grant element is an indicator of the extent to which a loan is concessional; it is calculated by dividing the nominal value of a loan by the difference of the nominal value and the present value of servicing the loan in the future, the result being expressed in percentage points.

The external debt-servicing burden on the State Budget will be significantly diminished by annual economic growth rate of between 7% to 9% and the 0.4 percentage point increase in tax revenues as a percent of GDP over the MTEF period.

As to foreign currency flows, and to ratios such as external debt to exports and external debt servicing to exports, assuming that exports grow and given that no substantial increase in external interest rates is expected (due to access to concessional loans), there will be no difficulties in debt management.

#### *Internal Public Debt*

The problems experienced in internal debt management have highlighted the need for improvement in the legislative framework and for introduction of more flexible systems for administration of the public bond market.

New conditions for issue, as well as new rules for distribution, circulation, and redemption of bonds, were developed and introduced in 1999, with the purpose of ascribing a new quality to the role, behaviour, rights, and obligations of participants of the primary bond market. The system of Treasury Depository was established, with the objective of attracting domestic savings, raising the Government's credit rating, engaging new investors, and increasing the share of individual bondholders.

In 2000, the Government took another important step in the public bond market, by issuing and successfully allocating medium-term public bonds, thus creating grounds for the formation of long-term trends, reducing the cost of internal public debt, and strengthening investors' confidence in public bonds. The issue of medium-term public bonds enabled increases in internal debt, without jeopardizing the Government's solvency, since the ratio of the average daily internal debt to average daily tax revenue was reduced from 36-37% down to 20-21%.

**Table 4.5. Main Characteristics of Internal Public Debt, 2002-2006 (Million Drams)**

Indicators	2002	2003	2004	2005	2006
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
Internal debt	36 496.9	38 496.9	41 696.9	45 796.9	50 346.9
<i>Percent of GDP</i>	<i>2.69</i>	<i>2.61</i>	<i>2.59</i>	<i>2.61</i>	<i>2.62</i>
Medium-term public bonds	16 015.5	18 215.5	20 215.5	22 815.5	26 365.5
Short-term public bonds	20 481.4	20 281.4	21 481.4	22 981.4	23 981.4
Average interest rate	16.43	16.30	16.00	15.8	15.6
Average maturity	263	270	280	290	300
Interest payment	5 955.3	7 600.0	7 300.0	7 000.0	7 000.0
<i>Percent of GDP</i>	<i>0.44</i>	<i>0.52</i>	<i>0.45</i>	<i>0.40</i>	<i>0.36</i>
<i>Percent of tax revenues</i>	<i>3.00</i>	<i>3.45</i>	<i>2.95</i>	<i>2.52</i>	<i>2.25</i>
<i>Percent of state budget expenditures</i>	<i>2.16</i>	<i>2.37</i>	<i>2.21</i>	<i>1.96</i>	<i>1.79</i>

The abrupt decline in interest rates has also contributed to the significant abatement of the internal public debt burden, reflected in the deterioration in the profitability of public bonds. This fact has been especially pronounced given the background of increasing GDP and tax revenues.

The policy proposed for 2002-2006 will be the logical continuation of the debt management strategy pursued since 2001. It will continue to be focus on lengthening the maturity and reducing the cost of debt. Opportunities will be gradually created for replacing external sources of deficit financing with internal sources. Within the framework of the aforementioned policy, it is envisaged that long-term (over 5 year) public bonds will be issued during the planned period. A crucial pre-requisite for this will be expanding the number of public bond market participants, through the attraction of non-bank financial institutions and ROA citizens. It is not only the physical increase in investments of non-bank financial institutions and individuals that is important, but also increases in their share in the structure of investments.

As already mentioned, the forecasted increase in internal debt for 2002-2006 will not have a substantial impact on fiscal stability and budget flows, given that the maturity term of the debt is prolonged in parallel with an adequate increase in tax revenues. It is advisable that the ratio of average daily internal debt to average daily tax revenue does not exceed 20%.

Among the above-mentioned issues dealing with the policy of internal public debt management, further stress will be laid on fundamental issues such as enhancing investment attractiveness, transparency, and predictability of the public bond market.

#### **PROPOSED CHANGES IN THE RESOURCE AND EXPENDITURE ENVELOPE OF THE STATE BUDGET FOR 2004-2006**

Analysis of the forecasted receipts of the State Budgets for 2004-2006 shows that, assuming a nominal GDP growth rate of 9.2% in 2004, receipts of the state budget will decrease by around 4.3%, or by 14.9 billion drams. This is caused by a reduction in receipts from budgetary loans and from official transfers, amounting to 11.1 billion drams and 27.6 billion drams, respectively, partly offset by a significant increase in current revenues of 29.0 billion drams. By contrast, receipts of the State Budget are expected to increase by 3.4% and 11.9% in 2005 and 2006 respectively (as compared with the 2003 indicator). This is mainly due to the addition in tax revenues from the increases in nominal GDP of 18.4% in 2005 and 27.6% in 2006.

As shown in the table, most of the growth in receipts over 2004-2006, amounting to 63.94 billion drams, or to 63.9% of the increase in revenues, will be directed to financing



the social-cultural branches and the economic sectors. In particular, the social-cultural functions will be allocated 58.0% of the additional receipts.

For the MTEF period, around 39.21% of the additional resources allocated to social-cultural functions will be channelled to education (mostly, to elementary, basic and general education). Around 29.9% will be channelled to social security and social insurance (of which, 17.8% goes to pensions, and 70.1% to family poverty benefits), and 24.5% is directed to health care (mostly, to the primary unit – ambulatory-polyclinic and hospital care).

**Table 4.6. Proposed Changes in Resource Package of the State Budget for 2004-2006 (Million Drams)**

Indicators	2003	2004	2005	2006
1. Revenues and official transfers	286 979.8	288 507.0	318 516.3	350 815.4
<i>Percentage share in GDP</i>	<i>19.47</i>	<i>17.93</i>	<i>18.13</i>	<i>18.29</i>
2. Receipts from repayment of budgetary loans	13 979.8	2 885.5	2 451.6	71.8
<i>Percentage share in GDP</i>	<i>0.95</i>	<i>0.18</i>	<i>0.14</i>	<i>0.004</i>
3. Deficit financing sources	47 258.8	41 899.9	39 200.0	38 619.1
<i>Percentage share in GDP</i>	<i>3.21</i>	<i>2.60</i>	<i>2.23</i>	<i>2.01</i>
<b>TOTAL RECEIPTS</b>	<b>348 218.4</b>	<b>333 292.5</b>	<b>360 167.9</b>	<b>389 506.3</b>
<i>Percentage share in GDP</i>	<i>23.62</i>	<i>20.71</i>	<i>20.50</i>	<i>20.30</i>
<b>ADDITIONAL RECEIPTS (compared with previous year level)</b>	<b>X</b>	<b>- 14 925.9</b>	<b>26 875.4</b>	<b>29 338.4</b>
<i>Additional receipts as percent of previous year level</i>	<i>X</i>	<i>-4.3</i>	<i>8.1</i>	<i>8.1</i>
4. Net funds released from sectors (compared with previous year)	<b>X</b>	45 515.7	11 891.2	1 297.7
<b>TOTAL ADDITIONAL RESOURCES (compared with previous year level)</b>	<b>X</b>	30 589.8	38 877.6	30 536.9
<i>Percentage share in GDP</i>	<b>X</b>	1.90%	2.21%	1.59%
<b>Proposed sectoral distribution of additional resources for 2004-2006,</b>	<b>X</b>	30 589.8	38 877.6	30 536.9
<i>Including</i>				
1. Social-cultural branches	<b>X</b>	15 441.8	20 125.5	22 482.1
2. Defence, national security, public order protection, criminal-executive and state emergency systems	<b>X</b>	5 459.5	6 571.7	4 030.2
3. Economic sectors	<b>X</b>	3 021.5	0.0	2 873.9
4. Public administration	<b>X</b>	5 123.0	6 004.2	692.1
5. State support to local self-governance bodies	<b>X</b>	1 544.0	2 840.0	332.0
6. Other sectors	<b>X</b>	0.0	3 336.2	126.6

Around 16.1% of the additional resources will be directed to maintenance of defence, national security, and public order protection systems, as well as to the state emergency system, as dictated by the need to allocate appropriate resources for assuring the ongoing activities of these bodies.

For 2004-2006, around 5.9% of additional resources will be channelled to the economic sectors of public expenditure. The majority of these resources (41.7%) will be allocated to housing and communal services (the water supply system). This expenditure will be funded by credits to be received under special-purpose lending programmes.

Around 11.8% of additional resources will be directed to public administration. These funds will support improvements in civil service and judicial systems, as well as the arrangement and running of 2005 elections to local self-governance bodies.

For 2004-2006, around 4.7% of additional resources will be channelled to the local self-governance bodies.

### FORECAST OF STATE BUDGET EXPENDITURES FOR 2004-2006, BY CONSOLIDATED GROUPS OF FUNCTIONAL CLASSIFICATION

Forecasts of state budget expenditure over 2004-2006, by functional classification, are presented in the table below. Hereafter in this chapter, the groups “Social-Cultural Branches”, “Economic Sectors”, and “Other Sectors” are presented excluding the maintenance costs of the republican and territorial apparatus of public governance, which costs are consolidated under “Public Administration”).

**Table 4.7. Forecast of State Budget Expenditures for 2004-2006, by Consolidated Groups of Functional Classification (Million Drams)**

Indicators	2003	2004	2005	2006
<b>TOTAL EXPENDITURE</b>	<b>334 238.5</b>	<b>330 406.9</b>	<b>357 716.3</b>	<b>389 434.5</b>
<i>Including</i>				
<b>1. Social-cultural branches</b>	<b>100 836.8</b>	<b>108 745.9</b>	<b>128 871.4</b>	<b>151 353.5</b>
- <i>Percent of GDP</i>	6.84	6.76	7.33	7.89
- <i>Percentage share in total expenditures</i>	30.17	32.91	36.03	38.86
<b>2. Defence, national security, public order protection, criminal-executive and state emergency systems</b>	<b>61 330.2</b>	<b>66 789.7</b>	<b>73 361.4</b>	<b>77 391.6</b>
- <i>Percent of GDP</i>	4.16	4.15	4.18	4.03
- <i>Percentage share in total expenditures</i>	18.35	20.21	20.51	19.87
<b>3. Economic sectors</b>	<b>96 506.2*</b>	<b>85 338.4</b>	<b>74 011.6</b>	<b>75 686.7</b>
- <i>Percent of GDP</i>	6.55	5.30	4.21	3.95
- <i>Percentage share in total expenditures</i>	28.87	25.83	20.69	19.44
<b>4. Public administration</b>	<b>23 183.8</b>	<b>28 306.9</b>	<b>34 311.1</b>	<b>35 003.1</b>
- <i>Percent of GDP</i>	1.57	1.76	1.95	1.82
- <i>Percentage share in total expenditures</i>	6.94	8.57	9.59	8.99
<b>5. State support to local self-governance bodies</b>	<b>9 152.0</b>	<b>10 696.0</b>	<b>13 536.0</b>	<b>13 868.0</b>
- <i>Percent of GDP</i>	0.62	0.66	0.77	0.72
- <i>Percentage share in total expenditures</i>	2.74	3.24	3.78	3.56
<b>6. Other sectors</b>	<b>43 229.5</b>	<b>30 529.9</b>	<b>33 624.9</b>	<b>36 131.6</b>
- <i>Percent of GDP</i>	2.93	1.90	1.92	1.89
- <i>Percentage share in total expenditures</i>	12.93	9.24	9.4	9.28

\* The indicator includes the amount (with a negative sign) of receipts of 10,606.3 million drams expected in 2003 from repayment of budgetary loans to enterprises, provided from resources received by the Government from the “Lincy” foundation.

In the group “Social-Cultural Branches”, special emphasis will be placed on implementation of strategic programmes for the development of education, health care, and social security.

**Table 4.8. Public Expenditure in the Social Sector for 2003-2006, by Branches (Million Drams)**

Indicators	2003	2004	2005	2006
<b>SOCIAL-CULTURAL SUB-SECTORS, total</b>	<b>100 836.8</b>	<b>108 745.9</b>	<b>128 871.4</b>	<b>151 353.5</b>
<i>Including</i>				
<b>1. EDUCATION</b>	<b>31 833.8</b>	<b>39 204.3</b>	<b>47 682.5</b>	<b>54 597.4</b>
- <i>Percentage share in GDP</i>	2.16	2.44	2.71	2.85
- <i>Percentage share in total expenditures</i>	9.52	11.87	13.33	14.02

## 2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

<b>2. SOCIAL INSURANCE AND SOCIAL SECURITY</b>	<b>30 464.9</b>	<b>34 528.6</b>	<b>39 220.6</b>	<b>47 837.8</b>
- Percentage share in GDP	2.07	2.15	2.23	2.49
- Percentage share in total expenditures	9.11	10.45	10.96	12.28
<b>3. HEALTH CARE</b>	<b>20 780.8</b>	<b>24 486.2</b>	<b>30 315.1</b>	<b>35 033.6</b>
- Percentage share in GDP	1.41	1.52	1.73	1.83
- Percentage share in total expenditures	6.22	7.41	8.48	9.00
<b>4. CULTURE, INFORMATION, SPORTS AND RELIGION</b>	<b>14 795.8</b>	<b>7 263.2</b>	<b>8 094.9</b>	<b>9 922.4</b>
- Percentage share in GDP	1.00	0.45	0.46	0.52
- Percentage share in total expenditures	4.43	2.20	2.26	2.54
<b>5. SCIENCE</b>	<b>2 961.5</b>	<b>3 263.6</b>	<b>3 558.3</b>	<b>3 962.1</b>
- Percentage share in GDP	0.20	0.20	0.20	0.20
- Percentage share in total expenditures	0.89	0.98	1.0	1.02

Improvements in the general education system are a priority of state policy in education (most of the sector's expenditures will be channelled to this area) in the coming years. Budgetary resources for 2004-2006 in health care will be directed to programmes for strengthening and developing primary medical care.

In social insurance and social security, the emphasis in the coming years will be on improving the family benefit system, on implementation of social security programmes, as well as on raising pensions. Moving the burden of social (non-insurance) pension payments from the Social Insurance Fund to the State Budget will support the steps taken for the development of social insurance and for raising social insurance pensions. This will enable the Fund's resources to be channelled to increasing social insurance pensions. Expenditures for 2004-2006 in the sectors of the economy will be targeted to programmes for the development of production infrastructure.

**Table 4.9. Public Expenditure in Sectors of Economy for 2003-2006, by Branches (Million Drams)**

Indicators	2003	2004	2005	2006
<b>SECTOR OF ECONOMY, total</b>	<b>96 506.2</b>	<b>85 338.4</b>	<b>74 011.6</b>	<b>75 686.7</b>
<i>Including</i>				
<b>1. FUEL AND ENERGY SYSTEM</b>	<b>12 184.8</b>	<b>13 297.4</b>	<b>8 910.5</b>	<b>9 301.7</b>
- Percentage share in GDP	0.83	0.83	0.51	0.48
- Percentage share in total expenditures	3.65	4.02	2.49	2.39
<b>2. AGRICULTURE, FOREST AND WATER SECTOR, FISHERY</b>	<b>19 162.6</b>	<b>16 059.4</b>	<b>11 668.2</b>	<b>10 924.2</b>
- Percentage share in GDP	1.30	1.0	0.66	0.57
- Percentage share in total expenditures	5.73	4.86	3.26	2.81
<b>3. TRANSPORTATION, ROADS AND COMMUNICATIONS</b>	<b>36 646.3</b>	<b>26 330.9</b>	<b>26 055.5</b>	<b>26 079.6</b>
- Percentage share in GDP	2.49	1.64	1.48	1.36
- Percentage share in total expenditures	10.96	7.97	7.28	6.70
<b>4. HOUSING AND COMMUNAL SERVICES</b>	<b>34 377.3</b>	<b>23 000.5</b>	<b>21 200.0</b>	<b>23 658.2</b>
- Percentage share in GDP	2.33	1.43	1.21	1.23
- Percentage share in total expenditures	10.29	6.96	5.93	6.08
<b>5. OTHER SECTORS OF ECONOMY</b>	<b>- 5 864.8</b>	<b>6 650.2</b>	<b>6 177.4</b>	<b>5 723.0</b>
- Percentage share in GDP	-0.40	0.40	0.35	0.31
- Percentage share in total expenditures	-1.76	2.02	1.73	1.46

The State will emphasise expenditure on agriculture, energy, transportation, roads, water, as well as in housing and communal services, to be implemented mostly through external funding.

Increases in spending for maintenance of defence, national security, public order protection, criminal-executive, and state emergency systems reflect the need to assure a high level of preparedness of these structures through creating sufficient conditions for their regular activities.

Expenditure on public administration will grow at a stable rate over 2004-2006. This growth is connected with the necessity to provide funding for the ongoing implementation of the reform programme in the system of public administration.

Tackling corruption and assuring equality before the law are priority issues in all sectors of the system of public administration. The improvement of public administration is to be implemented in three directions: structural and functional reforms of the public administration system, introduction of a civil service, and improvement of financial management.

The number of employees in the system of public administration over the last five years has been within the range of 11.8-14.1 thousand people. In spite of a doubling of the wage fund, salaries are still rather low (for example, the average monthly salary in 2001 was 37 thousand drams). Taking into consideration the fact that the number of employees in the system of public administration does not exceed the levels of good international practice, no substantial changes in staffing are proposed for the coming years (it will remain at 14.1 thousand employees). At the same time, respective actions will be taken in order to simplify the structure of public administration bodies, to consolidate structural divisions, and to accurately define their tasks and functions. Based on the results of these actions, the required number of employees in public administration bodies will be determined.

For financing the aforementioned programme, additional financial investments will be needed in public administration, particularly for retraining of state employees, remuneration of their work and creating social security guarantees for them, as well as meeting other regular needs for the functioning of public administration bodies. Therefore, expenditure allocations will increase by 12.2 billion drams or by 1.5 times over 2004-2006, as compared with the 2003 level. In particular, they will increase by 1.2 times in 2004, and the average annual increase over 2005-2006 will be 11.7%.

**Box 4.1. State Support to the Local Self-Governance System**

The Constitution of the Republic of Armenia (1995) and the ROA Law “On Local Self-Governance” (1997) has established the legislative basis for the functioning of the local self-governance system of the Republic of Armenia. Taking into consideration the experience gained within the period following the adoption of the above-mentioned legal statements, the new ROA Law “On Local Self-Governance” (2002) expanded and accurately defined the powers of local self-governance bodies, as well as their interrelations with the state (central authorities). After elections to the local self-governance bodies in 1996, the early results of the activities of those bodies prove that, in spite of a variety of serious problems, that local self-governance has begun and that the local self-governance bodies are able to fulfil their legal functions. In particular, this is proved by the overview of summarized indicators of community budget execution over the previous 6 years, which shows, on one hand, the progressive improvement of communities’ financial potential, and on the other hand, the annual expansion of state support.

	1998	1999	2000	2001	2002
	<i>Percentage change, as compared with the previous year</i>				
Own revenues of community budgets (official transfers to community budgets aside from the state budget)	34.0%	3.9%	0.2%	-3.8%	8.3%
Official transfers to community budgets from the state budget	1.9%	-42.8%	136.9%	31.0%	76.6%
Expenditures of community budgets	20.2%	0.9%	9.9%	23.7%	21.7%

Taking into account the difference between the financial potential of communities, the main objective of the state’s financial support rendered to local self-governance bodies is to financially contribute to the harmonious development of communities. This assistance will mostly be provided through subsidies to balance difference between communities (financial levelling), as well as through community infrastructure rehabilitation and development programmes implemented by the Armenian Social Investment Fund with World Bank assistance.

At the same time, actions will be taken for enhancing flexibility of the state’s financial support to community budgets. The mechanisms of financial levelling will be improved, thus creating grounds for differentiating state support to communities by the level of poverty, and by revenue or expense indicators (the last one will also be assisted by multi-nature data generated through the Census 2001). Actions will be taken also for supporting establishment of inter-community associations, designated for solution of the basic problems of small communities. Thus, when envisaging special-purpose allocations from the state budget, priority will be given to inter-community associations and to development of their infrastructure networks. Attention will be given to the development of communities in next-to-frontier, mountainous, and high-mountainous regions.

The significant increases in expenditure for supporting local self-governance bodies over 2005-2006, as compared with the 2003-2004 level, reflects the need to provide sufficient resources for local self-governance bodies to address basic community problems within the scope of the compulsory powers legislatively ascribed to them.

The majority of expenditures allocated to the function “Other Sectors” for 2004-2006 will be allocated to public debt servicing and external economic assistance.

**Table 4.10. Public Expenditure in Other Sectors of Economy for 2003-2006, by Branches (Million Drams)**

Indicators	2003	2004	2005	2006
<b>TOTAL</b>	<b>43 229.5</b>	<b>30 529.9</b>	<b>33 624.9</b>	<b>36 131.6</b>
<i>Including</i>				
<b>I. SERVICING OF PUBLIC DEBT (interest payments)</b>	<b>13 911.9</b>	<b>12 696.4</b>	<b>12 521.0</b>	<b>12 612.0</b>
<i>- Percentage share in GDP</i>	<i>0.94</i>	<i>0.79</i>	<i>0.71</i>	<i>0.66</i>

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- Percentage share in total expenditures	4.16	3.84	3.50	3.24
<b>2. BUDGETARY LENDING TO Nagorno-Karabakh</b>	<b>9 500.0</b>	<b>10 000.0</b>	<b>10 500.0</b>	<b>11 000.0</b>
- Percentage share in GDP	0.64	0.62	0.60	0.57
- Percentage share in total expenditures	2.84	3.03	2.94	2.82
<b>3. OTHER</b>	<b>19 817.6</b>	<b>7 833.5</b>	<b>10 603.9</b>	<b>12 519.6</b>
- Percentage share in GDP	1.35	0.49	0.61	0.66
- Percentage share in total expenditures	5.93	2.37	2.96	3.22

For 2004-2006, expenditure of the state budgets will, as in the past, be substantially dependent on external flows.

**Table 4.11. Expenditures Financed from External Resources (Grants and Official Transfers), 2003-2006**

Indicators	2003	2004	2005	2006
Expenditures financed from external resources (million drams)	<b>130 050.8</b>	<b>80 444.1</b>	<b>76 978.5</b>	<b>76 352.9</b>
- Percentage share in GDP	8.82	5.00	4.38	3.98
- Percentage share in total expenditures of state budget	38.91	24.35	21.52	19.61

A large share of 2004-2006 forecasted expenditures will be financed by external loans and official transfers. External loans and official transfers are 21.8% of budgetary expenditure and 4.5% of GDP.

**FORECAST OF STATE BUDGET EXPENDITURES FOR 2004-2006, BY MAIN ARTICLES OF ECONOMIC CLASSIFICATION**

The ratio of state budget expenditures to GDP will be rather stable, within the 21% to 21.2% range, for the MTEF period. The same trend will be evident in current expenditures, ranging from 15.29% to 16.06%. However, capital expenditures (including loans minus repayment) will fluctuate more, ranging between 4.3% and 5.2% of GDP. Capital (excluding net lending) as a percent of current expenditures will show a declining trend within the 31.1% to 23.8% range.

**Table 4.12. in Current and Capital Expenditures – Trends of Changes and Ratios, 2002-2006**

Indicators	2002	2003	2004	2005	2006
<b>TOTAL EXPENDITURES, million drams</b>	<b>263 912.4</b>	<b>334 238.5</b>	<b>330 406.9</b>	<b>357 716.3</b>	<b>389 434.5</b>
<i>Including</i>					
<b>- Current expenditures, million drams</b>	<b>219 367.7</b>	<b>226 241.8</b>	<b>244 908.8</b>	<b>282 311.7</b>	<b>305 774.9</b>
<i>Percent of GDP</i>	16.16	15.35	15.22	16.07	15.94
<b>- Capital expenditures, million drams</b>	<b>34 195.3</b>	<b>111 499.9</b>	<b>77 694.3</b>	<b>67 231.2</b>	<b>72 581.4</b>
<i>Percent of GDP</i>	2.52	7.56	4.83	3.82	3.78
<i>Ratio of capital and current expenditures</i>	15.59	49.28	31.72	23.81	23.73
<b>- Lending minus repayment million drams</b>	<b>10 349.4</b>	<b>-3 503.2</b>	<b>7 803.8</b>	<b>8 173.4</b>	<b>11 078.2</b>
<i>Percent of GDP</i>	0.76	-0.24	0.48	0.47	0.58

**Table 4.13. Current Expenditures for 2004-2006, by Consolidated Groups of Economic Classification of Budget Expenditures (Million Drams)**

Indicators	2003	2004	2005	2006
<b>CURRENT EXPENDITURES</b>	<b>226 241.8</b>	<b>244 908.8</b>	<b>282 311.7</b>	<b>305 774.9</b>
<i>Including</i>				
1. Wages and social insurance payments for employees of budgetary institutions	12 664.6	15 662.3	20 243.7	22 931.3
- <i>Percentage share in GDP</i>	<i>0.86</i>	<i>0.97</i>	<i>1.15</i>	<i>1.20</i>
2. Interest payments	13 912.0	12 696.4	12 521.0	12 612.0
- <i>Percentage share in GDP</i>	<i>0.94</i>	<i>0.79</i>	<i>0.71</i>	<i>0.66</i>
3. Subsidies	14 293.1	11 399.6	11 211.7	12 309.0
- <i>Percentage share in GDP</i>	<i>0.97</i>	<i>0.71</i>	<i>0.64</i>	<i>0.64</i>
4. Current transfers	44 027.2	48 294.5	56 498.8	62 781.7
- <i>Percentage share in GDP</i>	<i>2.99</i>	<i>3.00</i>	<i>3.22</i>	<i>3.27</i>
5. Acquisition of goods and services	141 344.9	156 856.0	181 836.5	195 140.9
- <i>Percentage share in GDP</i>	<i>9.59</i>	<i>9.75</i>	<i>10.35</i>	<i>10.17</i>

Current expenditures will comprise around 77.4% of total expenditures (the budgeted indicator for 2003 was 67.7%). The average annual growth rate of nominal current expenditure will exceed the growth rate of capital and lending-minus-repayment expenditures by 19.7 percentage points for 2004-2006.

Expenditures for acquisition of goods and services will comprise the largest share (63.5%) in the structure of current expenditures.

The average annual share of wages of budgetary institutions' employees will be 7.1% of current expenditures over 2004-2006. Current transfers will average 20.1% of current expenditure, interest payment expenditure for public debt servicing will be 4.5% and subsidies are forecast at 4.2%.

Among the above-mentioned categories of spending, expenditure on wages of budgetary institutions' employees will have the highest rate of annual growth at 22.1%. This reflects the planned increases in the wages of employees of public administration bodies within the public administration reform framework (including the anti-corruption policy). In particular, the 2004 increase in wage expenditure is mainly due to the full-year implications of the increase in wages of top officials and civil servants introduced on July 1, 2003. The increase for 2005-2006 is due to both the requirements of the ROA Law "On Remuneration of Civil Servants" and by the proposed increase in official base rates of the wages of civil and tax officers.

The cost of internal debt servicing will be around 56.7% of public debt servicing expenditures. Nominal public debt servicing expenditure, in comparison with the 2003 indicator, will decline by around 10%, fluctuating within the range of 12.5 to 12.7 billion drams.

The majority of subsidies will be allocated to housing and communal services (water supply/ sewerage system), to organisations in the irrigation system and to the Metro – for repayment of their arrears to the energy system, as well as to scientific and cultural-informational enterprises (TV, museums, libraries, theatre-concert enterprises, etc), so as to assure the functioning of those units. It is worth mentioning that, for 2004-2006, subsidies to housing and communal services (water supply/sewerage system) and to organisations in the irrigation system – both in absolute amount and in their share within total current expenditures – will show a declining trend (from 3.2% of current expenditures in 2003 to 0.4% in 2006). By contrast, the share of subsidies to other sectors within total current expenditures will increase from 2.8% in 2003 to 3.6% in 2006.

Current transfers for 2004-2006 will grow significantly, showing average annual growth of 12.6%. This increase is mainly driven by the planned increase in the annual average family benefit and pension payments, as well as in State Budget subsidies to communities, by 25.1%, 8.4% and 15.3%, respectively.

Additional expenditures in pensions mainly reflects the need to provide sufficient budget resources for payment of pensions for the period of length of service which has not been insured, as prescribed by the ROA Law “On Public Pensions in the Republic of Armenia” enacted in April 2003; as well as by the proposed increase in the number of retired military officers (mostly, with long years’ service), and in the amount of the average pension.

The increase in the additional amount paid for each child under 18 will drive the increase in family benefit expenditures.

There will also be significant growth in expenditure on the acquisition of goods and services, similar to those in the wages of budgetary institutions and in current transfers, (with an average annual growth rate amounting to 11.1%). This is due to the impact of forecasted inflation and of increases in the acquisition price of certain goods and services, as well as the additional volumes of procurement for certain types of services (e.g., in health care and education).

Allocation of the majority of capital expenditures will, as in the past, be substantially dependent on funding from external sources. Thus, 72.4% (157.41 billion drams) of the total of 217.5 billion drams of capital expenditures envisaged for 2004-2006 will be financed by loans from international organisations and foreign countries provided for implementation of special-purpose programmes in the Republic.



For the planned period, the average annual share of net lending within total budget expenditures will amount to 2.5%, mainly in the form of external economic assistance.

### **FISCAL RISKS OF THE 2004-2006 MTEF**

With regard to the realistic execution of the 2004-2006 MTEF, it is important to evaluate possible deviations from the planned scenario. These deviations can have either a positive or a negative impact on the fiscal framework. Nevertheless, more attention should be attached to evaluation of those deviations, which would result in negative outcomes and require corresponding revisions in expenditure programmes. In this respect, forecasts of the 2004-2006 MTEF contain certain risks, and disclosure and assessment of the risk factors could introduce substantial clarity in the scope of possible adjustments in the framework. The need of such analysis is especially evident on the threshold of developing the draft 2004 State Budget, which would create the grounds for basing the annual budget on revised forecasts, as necessary.

#### Sources of Risks

Within the 2004-2006 MTEF, the following risks with the potential to create negative deviations from the planned resource package can be identified:

- (i) Risks concerned with non-tax revenues; in particular, with the receipts generated through revenues of the Central Bank exceeding its expenses;
- (ii) Risks concerned with external assistance, in particular, with provision of grants and loans.

Receipts generated through revenues of the Central Bank exceeding its expenses: A lower than planned level of interest revenue from the Central Bank's foreign currency assets (which may result from fluctuations of interest rates in international financial markets), if other conditions remaining unchanged, would result in reduction of the Central Bank's profit, with a following reduction in allocations from the Central Bank profit to the State Budget.

External assistance: For 2004-2006, the budgetary resource envelope will be replenished by both grants and loans.

Risks in terms of grants in 2004 are mainly attributed to capital grants (allocations from the "Lincy" foundation), forecasted to be 23.7 billion drams. In terms of current grants in 2004 (9.7 billion drams), the risks appear to be minimal, since allocation of those resources has been already negotiated and agreed upon. However, for 2005-2006 there are risks around current and capital grants, with planned receipts of 9 billion drams and 24.4 billion drams in 2005; and 8.5 billion drams and 23.7 billion drams in 2006, respectively.

Risks in terms of loans are mainly attributed to the possible deviations of actual allocations from the planned ones.

*Possible Outcomes and Adjustments*

A lower than planned level of non-tax revenues would imply a reduction in expenditures. Taking into account that non-tax revenues are not attached to any expenditure category or programme, reconsideration of the expenditure plan would be implemented on the basis of the priority principle. That is, the expenditure categories or the programmes with a lower level of priority would be reduced first.

In the case of a deficiency of external assistance receipts, approaches for reconsideration of the expenditure plan would be different, depending on the nature of the external assistance. In this respect, the structure of forecasted external assistance by designation should be given more attention. According to forecasts, programmatic (special-purpose) grants and loans will comprise a major share in the structure of external assistance for the planned period (95% in 2004, around 73% in 2005 and 2006).

**Table 4.14. External Assistance, by Designation (Billion Drams)**

Indicators	2004	2005	2006
General purpose budgetary assistance	4.1	20.8	20.4
Grants	4.1	9.0	8.5
Loans	0.0	11.9	11.9
Programmatic (special-purpose) assistance	76.4	56.1	56.0
Grants	29.3	24.4	23.7
<i>Including capital grants<sup>11</sup></i>	23.7	24.4	23.7
Loans	47.1	31.7	32.3
<b>Total external assistance</b>	<b>80.4</b>	<b>77.0</b>	<b>76.4</b>

In case of a deficiency in general-purpose budgetary assistance, reconsideration of expenditures will depend on priorities, whereas a deficiency of programmatic (special-purpose) budgetary grants and loans will result in reduction of financing of their respective programmes. In particular, resources to be received from the “Lincy” foundation comprise the majority of programmatic grants, which will be channelled to investments in housing and communal services, in culture and transportation; whereas in the structure of programmatic loans, the World Bank financed special-purpose programs in social and production infrastructure comprise the majority.

*Mitigating factors*

Favourable macroeconomic developments can have a positive impact on the 2004-2006 fiscal framework, thus partially offsetting possible downside risks.

<sup>11</sup> Allocation from the “Lincy” foundation.

Macroeconomic scenario forecasts for the 2004-2006 MTEF were undertaken in early 2003<sup>12</sup>. At that time, recognising the importance of co-ordination between the PRSP and the MTEF, both scenarios were based on the same assumptions and principles of macroeconomic policy.

In particular, real GDP growth of 7% has been forecasted for 2003, with a structure as presented below.

**Table 4.15. GDP Growth Forecast for 2003, by Main Branches of Economy**

Indicators	Gross Domestic Product	Including						
		Industry	Agriculture	Construction	Transport and communication	Trade	Other branches	Net indirect taxes
<i>Percentage change, as compared with the previous year</i>	7.0	6.0	2.6	25.7	2.8	3.3	4.3	4.5
Contribution to economic growth, percentage points	7.0	1.3	0.6	3.5	0.2	0.3	0.7	0.4

However, initial indicators of the first six months of 2003 depict another picture: the real growth of GDP was 14.8%, industrial production has increased by 18.6%, gross agricultural production by 3.1%, capital construction by 45.4%, and the retail turnover of goods by 12.4%. Comparison of the 2003 annual forecasts and of actual indicators of export (FOB) and import (SIF) for the first six months also gives grounds for anticipating possible differences between annual forecasts and actual results. In particular, for 2003, growth of 8.7% and 12.3% was forecasted (expressed in US dollars), whereas according to the actual results of the first six months of the current year, the export of goods has increased by 39.5%, while imports have increased by 48.5%, as compared with the same period of the previous year.

If similar development trends are observed during the second half of the year, the 2003 macroeconomic indicators will deviate from the planned targets. In particular, by initial assessment, the annual economic growth rate may exceed 10%. This will, in turn, impact on the resource framework of the 2004-2006 MTEF through higher than planned tax revenues, due to the expansion in the tax base. By a conservative assessment, additional tax revenue receipts from these positive macroeconomic developments may amount to 3-5 billion drams annually. An increase in the resource envelope, through the realisation of

<sup>12</sup> Forecasts of key macroeconomic indicators have been presented to public governance bodies of the Republic of Armenia on February 24, 2003, in the form of the Annex to the Methodological Instructions "On Elaboration of the Medium-Term Expenditure Programmes for 2004-2006 by Public Bodies of the Republic of Armenia", developed by the Ministry of Finance and Economy.

this scenario, would at least neutralize the potential downside risk in non-tax revenues, thus allowing expenditure plans to remain unchanged.

Nevertheless, given that the medium-term expenditure framework has, primarily, a strategic role and defines the framework of public expenditure policy for the medium-term, along with assuring the comparability of state policy priorities and public expenditures, other alternative macroeconomic forecasts have not been considered at this stage of planning. At the same time, if necessary, the revised version of macroeconomic forecasts presently considered by the ROA Government will be included in the 2004 annual Budget.

**PART B**  
**STRATEGY OF**  
**EXPENDITURE POLICY**

**CHAPTER 5. EXPENDITURE PRIORITIES OF THE 2004-2006 BUDGETS**

This document expounds the Government's expenditure policy strategy. It describes policy priorities for each group of functional classification of the State Budget expenditures over 2004-2006. These priorities emerge from the Government's general strategic priorities and should serve as a basis for development of the draft 2004 State Budget.

For the coming years, the ROA Government determines the following priorities for State Budget expenditures:

- (iv) Ensuring financial support of reforms in certain branches of the social sector (in particular, education, health, social security and social insurance), and in public administration, where reforms aim to improve the effectiveness and efficiency of Government expenditure and the targeting of expenditure to priorities, as well as enhancing the availability of services to the public;
- (v) Ensuring financial support of the regular activities of defence and national security institutions, in order to maintain the territorial intactness of the Republic, regional stability, and the balance of forces in the Karabagh conflict;
- (i) Implementation of programmes to rehabilitate and develop infrastructure in certain sectors of economy (particularly, in the agriculture, water, road and energy sectors).

**Table 5.1. Proposed Changes for 2004-2006 in the Resource and Expenditure Package of the State Budget (Million Drams)**

Indicators	2004	2005	2006
Proposed distribution of additional budget resources for 2004-2006, by function	30 589.8	38 877.6	30 536.2
<i>Including</i>			
1. Social-cultural branches	15 441.8	20 125.5	22 482.1
2. Defence, national security, public order protection, criminal-executive and state emergency systems	5 459.5	6 571.7	4 030.2
3. Economic sectors	3 021.4	0.0	2 873.9
4. Public administration	5 123.0	6 004.2	692.1
5. State support to local self-governance bodies	1 544.0	2 840.0	332.0

As shown in the table, the majority of the additional resources for 2004-2006 (63.94 billion drams or 63.9% of the total) will be channelled to financing social-cultural and economic functions. Of that, the share of the social-cultural function will comprise 58.0% of the total amount of additional resources. For the planned period, the social orientation of budgetary expenditures will be significantly enhanced. Thus, the share of groups such as "Health Care", "Education and Science" and "Social Security and Social Insurance" within total spending will increase from 26.0% in 2003 to 30.8% in 2004 and

36.6% in 2006, which is consistent with the basic provisions of the Poverty Reduction Strategy Paper.

Around 39.21% of the additional resources allocated to the social sector will be channelled to education (mostly, to elementary, basic and general education); around 29.9% to social security and social insurance (of which, 17.8% goes to pensions, and 70.1% to family poverty benefits), 24.5% to health care (mostly, to primary health – ambulatory-polyclinic and hospital care).

Around 16.1% of the total amount of additional resources will be directed to the maintenance of defence, national security, and public order protection systems, as well as to the state emergency system, as dictated by the need to allocate appropriate resources for assuring regular activities of these bodies.

Around 5.9% of the total amount of additional resources over 2004-2006, will be channelled to the economic sectors. The majority of those resources (41.7%) will be allocated to housing and communal services (the water supply system). These resources will be funded by credits to be received under special-purpose lending programmes.

Around 11.8% of the total amount of additional resources will be directed to public administration. These funds will support the improvements to be introduced in civil service and judicial systems, as well as to the arrangement and running of 2005 elections to local self-governance bodies.

For 2004-2006, around 4.7% of the total amount of additional resources will be channelled to local self-governance.

Below is the presentation of the proposed public spending for 2004-2006, by functional classification.

**Table 5.2. State Budget Expenditures for 2004-2006, by Functional Classification (Million Drams)**

Title of functional classification group	2002	2003	2004	2005	2006
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
<b>Total expenditure</b>	<b>263 912.4</b>	<b>334 238.5</b>	<b>330 406.9</b>	<b>357 716.3</b>	<b>389 434.5</b>
<i>Including</i>					
01 General public services	24 277.2	27 103.9	29 560.1	37 041.9	42 330.6
02 Defence	36 388.5	44 324.0	48 524.4	52 770.0	56 017.2
03 Public order protection, national security and judicial activities	16 829.2	20 841.5	24 379.8	25 762.9	24 495.3
04 Education and science	29 089.3	34 914.5	42 637.0	51 419.6	58 747.2
05 Health care	15 965.5	21 014.0	24 927.9	30 784.9	35 529.0
06 Social security and social insurance	23 792.0	30 822.9	35 043.0	39 766.8	48 413.2
07 Culture, information, sports and religion	6 477.6	15 036.5	7 617.8	8 466.0	10 308.8
08 Housing and communal services	8 364.2	34 377.4	23 000.5	21 200.0	23 658.2
09 Fuel and energy	8 374.2	12 392.5	13 596.2	9 218.9	9 618.0
10 Agriculture, forest and water	14 527.7	19 322.4	16 293.1	11 917.0	11 186.3
11 Industry, minerals (except fuel), construction and environmental protection	398.4	-6 876.1	5 197.8	4 787.2	4 388.3
12 Transport, roads and communications	7 780.9	36 964.6	26 583.3	26 322.5	26 359.3
13 Other economic services	493.1	1 686.0	2 552.0	2 556.0	2 560.2

14 Non-classified expenditures	71 154.6	42 314.5	30 494.0	35 702.6	35 822.9
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As shown in the table, for the MTEF period – as in previous years – the functions of “Defence”, “Education and Science” and “Social Security and Social Insurance” will have the largest share of total expenditure, at 14.6%, 14.1% and 11.4%, respectively. At the same time, the share of these expenditure categories will increase over 2004-2006. The share of the “Defence” function will increase from 13.3% in 2003 to 14.6% in 2004, then fluctuating within the relatively stable range of 14.8-14.4%; whereas the shares of “Education and Science” and “Social Security and Social Insurance” will increase steadily from 10.4% in 2003 to 12.8% in 2004 and 15.1% in 2006, and from 9.2% in 2003 to 10.6% in 2004 and 12.4% in 2006, respectively.

The high growth in these functions of expenditure is followed by the functions “Health Care”, “Transport, Roads, and Communications”, “Public Order Protection, National Security, and Judicial Activities”, and “General Public Service”.

It is worth mentioning that the social orientation of budgetary expenditures will be substantially enhanced over 2004-2006. Thus, the share of groups such as “Health Care”, “Education and Science” and “Social Security and Social Insurance” within total spending will increase from 26.0% in 2003 up to 30.8% in 2004 and 36.6% in 2006, which is consistent with the basic provisions of the Poverty Reduction Strategy Paper.

For 2004-2006, expenditures in “General Public Service” are also expected to increase steadily, from 8.1% in 2003 to 10.9% in 2006. This mainly reflects the need to provide sufficient resources for public administration reforms (in particular, within the anti-corruption strategy framework).

As already mentioned, among the functional classification of budgetary expenditures, the groups “Transport, Roads, and Communications” and “Housing and Communal Services” will have the largest share within the total spending in the economic sectors.

Public expenditure policy in the above-mentioned and other functional classifications of budgetary expenditures for 2004-2006 is presented in the following chapters.



## **CHAPTER 6. PUBLIC ADMINISTRATION EXPENDITURE OF THE REPUBLIC OF ARMENIA**

The 2004-2006 medium-term expenditure framework for public administration has been developed on the basis of standards determined by the Steering Committee coordinating the development of the medium-term public expenditure framework in the Republic, as well as on recommendations and comments made by the Co-ordination Committee. Planning of the 2004-2006 medium-term expenditures has also been based on the relevant provisions of the Poverty Reduction Strategy Paper approved by the ROA Government.

### **SITUATIONAL OVERVIEW**

The difficulties of the transitional period and the diversity of problems faced by the country have hindered rapid and significant improvements in the public administration system (including the judicial system). This has been reinforced by the fact that, in contrast to other sectors, improvements in this sector – initiated relatively later – have been affected by the former centralised system of administration.

These factors have negatively influenced the efficiency of the public administration system. A high degree of centralisation in the implementation of policies and decision-making has persisted. There is an absence of transparency, a lack of an efficient accountability system and limited civil participation in government.

As to the provision of public services, the quality and availability of those services – especially to the poor groups of the population – has been unsatisfactory.

Imperfection of the public administration and judicial systems, paralleled with other transitional problems, has contributed to the pervasiveness of the informal economy and corruption in Armenia.

In order to enhance the efficiency of the public administration system, to improve the quality and availability, transparency and accountability, as well as enhance the control of its services, the ROA Government has adopted a new reform strategy in recent years. Reforms are being implemented in the following three areas:

- (i) Structural and functional reforms of the public administration system;
- (ii) Introduction of a civil service;
- (iii) Improvements of the financial administration system.

*Structural and functional reforms of the public administration system* have been realised on the basis of the ROA Laws “On Public Administrative Institutions” and “On Public Non-Commercial Organisations”, as well as of other legislative statements, which has

resulted in the process of restructuring certain public administration bodies. A number of republican bodies in the ROA Government, as well as certain public institutions subordinated to various Ministries have been restructured into separate divisions – with the inspection agency separated from the rest of the department. In addition, certain bodies have been restructured into public non-commercial organisations, separating the bodies implementing administrative functions from those implementing public (state) functions. Moreover, new bodies of public administration have been established, statutory tasks of Ministries have been defined more accurately; and the structure of their staffs has been consolidated.

These reforms have resulted in additions to the total number employed in public administration bodies. Their number increased by 2,168.5 in 2003, to a total of 14,241 FTE<sup>13</sup> units.

The process of structural and functional reform of the public administration system is continuing. However, in the medium-term, no substantial changes are anticipated in the number of employees.

*Improvements in the civil service sector* have been implemented on the basis of the ROA Law “On Civil Service” and a number of other legislative statements. In accordance with them, civil servants have been differentiated from those providing political, conceptual (politically appointed officials), and technical services. New and equal terms have been determined for engagement and dismissal from the civil service, opportunities for professional career and stability of service has been assured, more accurate definitions of job descriptions in the civil service have been developed, which define the limits of officials’ responsibilities, the remuneration and social security of civil servants, and the system of income and asset declaration.

A particularly important area of improvement in the public administration system, which is also a fundamental component of the ROA Government’s anti-corruption programme, has been the increase in wages of public officials as prescribed by the ROA Laws “On Remuneration of Civil Servants”, “On Official Wage Rates of the Managerial Personnel of Legislative, Executive and Judicial Authorities of the Republic of Armenia”, “On the Status of a Judge”, “On Prosecutor’s Office”, “On Public Service in the Staff of the National Assembly of the Republic of Armenia”, “On Tax Service” and “On Customs Service”. The increase in wages of tax and customs employees has already been stipulated in the 2003 State Budget. As a result, the average salary in these bodies has amounted to the dram equivalent of US\$120 since the beginning of the current year, and

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<sup>13</sup> FTE – Full-time equivalent

to the dram equivalent of US\$200 since July 1, 2003. According to the ROA Law “On Remuneration of Civil Servants”, the base official wage rate of civil servants has been determined at 20,000 drams in the ROA Law “On the State Budget 2003”, and additional resources have been stipulated for and allocated to the respective public administration bodies since July 1, 2003. Starting from the same date, wages of officials defined by the ROA Laws “On Official Wage Rates of the Managerial Personnel of Legislative, Executive and Judicial Authorities of the Republic of Armenia”, “On the Status of a Judge” and “On Prosecutor’s Office” have been increased accordingly.

Resources were also been planned in the 2003 State Budget for increasing the official wage rates of those providing conceptual and technical services, as well as of court staff employees.

Improvements of the financial administration system have been aimed at enhancing budget administration efficiency and, in the medium-term, will be implemented in the following directions:

- (i) The budget has to be closely integrated with the Government’s medium-term policy. In this respect, the medium-term expenditure framework is the most important document of the Government’s medium-term strategy, containing the interpretation of the main directions of macroeconomic, monetary, fiscal and public investment policies. Therefore, ensuring all Government’s policies and activities are covered in the medium-term expenditure framework will make their implementation more realistic. On the other hand, for assuring the ongoing and uninterrupted nature of this process, the MTEF should always be integrated with the budgeting process. Since 2003, the MTEF has officially been part of the budgeting process. This means that, prior to the detailed preparation of the next year’s budget, the MTEF for the coming three years has to be approved by the Government. In particular, prior to elaboration of the 2004 Budget, the 2004-2006 MTEF must be, and was, approved by the Government. This fact has also been fixed legislatively on April 11, 2003, in the ROA Law “On the Budgetary System of the Republic of Armenia”.
- (ii) Enhancing the transparency of the budgeting process: this objective will be attained by enhancing the accessibility of the MTEFs approved by the Government in the coming years, thus creating the pre-requisite for participation of citizens and civil society in considering issues of national importance (which might be reflected in the state budget, as well).

- (iii) Increasing the budget coverage: the budget should include all the cash and non-cash public financial flows, including extra-budgetary resources and operations dealing with external financing.
- (iv) Strengthening supervision during budget execution: the responsibility of Ministries and departments should be increased in this area, in terms of their appropriate execution of the allocated budgets, and timely reporting on it. In this regard, the role and significance of the National Assembly Control Chamber will be enhanced, which is also an important element of anti-corruption policy.
- (v) Increasing budget predictability: importance is attached not only to the budget's linkages with the medium-term expenditure framework, but also to assuring the complete actual execution of all target indicators of the budget, as well as to the preparation of the legislative and methodological basis for moving to programme budgeting.
- (vi) The budget should be clear and accessible, available for all users, which will enable broad groups of society to hold the Government accountable for its fiscal and expenditure policy. This objective will be attained by improving the form of presentation of the draft State Budget and of the programmes to the National Assembly and to broad groups of society, in accordance with the developments of the process for moving to programme budgeting.

#### **KEY EXPENDITURE PRIORITIES IN PUBLIC ADMINISTRATION FOR 2004-2006 MTEF PERIOD**

The Government commitment to successfully implement reforms in the public administration and judicial systems, and the importance of combating corruption in that sector, has been reflected in increases in the wages of public officials. This is a core component of the ROA Government's anti-corruption programme.

Equipping administrative bodies, so that all staff have access to up-to-date technical and communication facilities, is seen as key to enhancing the efficiency of the public administration system. A capital expenditure programme is planned in the PRSP and MTEF for this purpose over 2004-2008, during which period the main structural and functional reforms of the public administration system will be introduced.

Improvement of the public administration system will not be complete without corresponding improvements in the judicial system. In this regard, in the medium-term, there will be a focus on strengthening judicial administration and the enforcement of judicial decisions, on improving the processes of judicial work and the skills and abilities

of judges and legal specialists, on providing businesses and citizens with an accessible and inclusive system of legal information, as well as on construction and renovation of court buildings.

In the medium-term, the ROA Government will also focus on enhancing the transparency, accountability and efficiency of the public sector in areas such as administration of the civil service, the procurement system, financial management, development of policies and provision of services.

### **KEY OBJECTIVES OF EXPENDITURES ALLOCATED TO PUBLIC ADMINISTRATION FOR 2004-2006**

The main objective of public administration expenditure is creating the necessary basis for ensuring the accessibility of services and the equitable provision of high quality services to the population by public officers. These include providing appropriate remuneration and basic employment rights, as well as the introduction of procedures for regular compulsory retraining and attestation, technical re-equipment of public administration bodies.

### **EXPENDITURE DRIVERS FOR 2004-2006 MTEF PERIOD**

The following factors will impact on the structure of public administration expenditure over 2004-2006:

- (i) The increase in wages of top officials, civil servants, as well as tax and customs employees that was introduced in July 1, 2003;
- (ii) Meeting requirements of the ROA Law “On Remuneration of Civil Servants” and “On Diplomatic Service”;
- (iii) Further steps to be taken for assuring the financial independence of tax and customs employees and of civil servants;
- (iv) Recognition of the need to increase expenditures – from their 2003 level – on the procurement of goods, services and works for enabling the operation of public administration bodies, as well as for their technical re-equipment;
- (v) The need for improving transparency, accountability and efficiency of the public sector in areas such as administration of the civil service, procurement system, financial management, development of policies and provision of services;
- (vi) The need for strengthening judicial administration and the enforcement of judicial decisions, improvement of judicial processes and of the skills and abilities of judges and legal specialists, providing businesses and citizens with

an accessible and inclusive system of legal information, as well as for construction and renovation of court buildings.

The accurate definition of the required number of employees is important in terms of improving the efficiency of public administration bodies. This issue will be considered in the context of reforms aimed at simplifying the structure of public administration bodies, consolidation of the structural divisions and accurate definition of their tasks and functions.

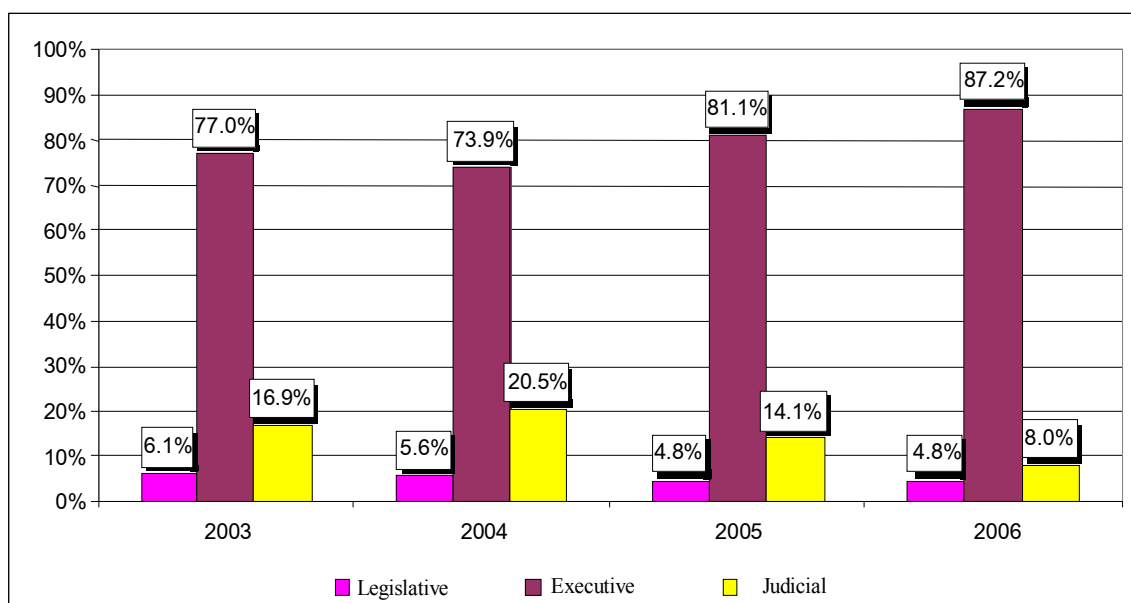
### PLANNED EXPENDITURES

Maintaining the level of financing necessary for supporting the regular activities of the public administration system has been a priority task.

Over 2004-2006, 97.6 billion drams will be allocated to the public administration function, of which 28.3 billion drams is in 2004, 34.3 billion drams is in 2005, and 35.0 billion drams is in 2006.

The distribution of expenditures, by maintenance costs of the apparatus of legislative, judicial, and executive governance bodies, is presented in the chart below.

**Chart 6.1. Expenditures in Public Administration for 2004-2006, by Governance Bodies (Percent of Total)**



The net growth of expenditure, as compared with the previous year, will be 5.1 billion drams in 2004, 6.0 billion drams in 2005, and 0.692 billion drams in 2006.

In addition to the planned growth in nominal expenditure, expenditure on public administration is also expected to increase its share in GDP. Thus, as compared with the planned level for 2003 (1.55% of GDP), state budget expenditure on public

administration will increase to 1.76% of GDP in 2004, 1.95% of GDP in 2005, and 1.82% of GDP in 2006.

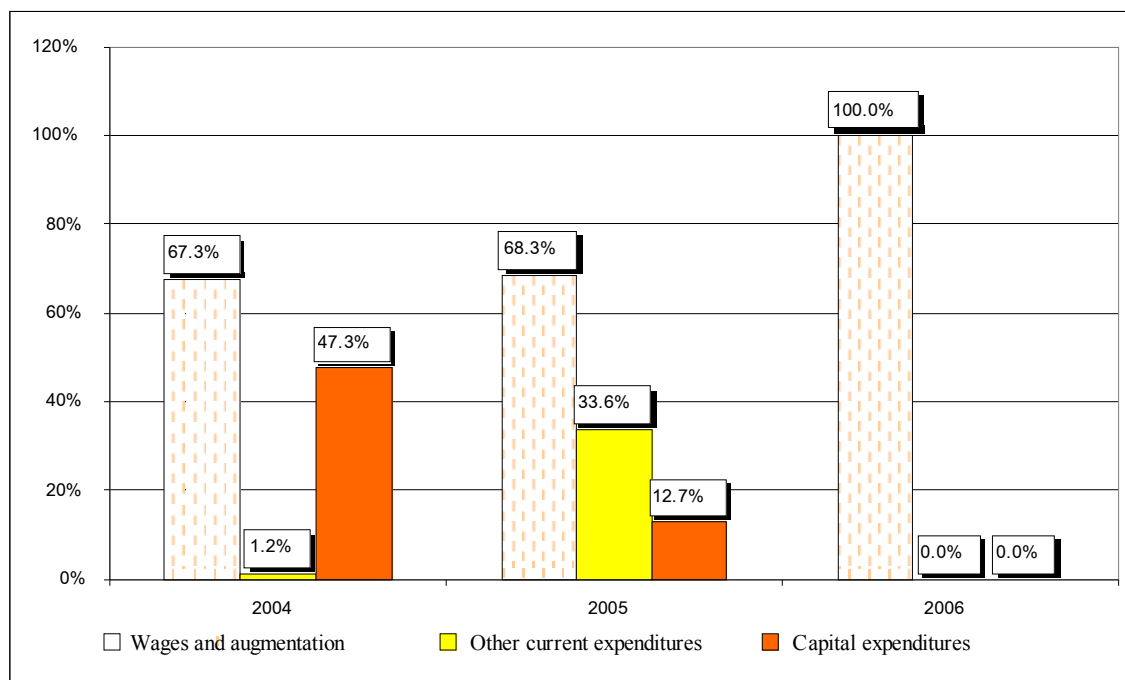
The share of these expenditures within total public spending will also increase. In comparison with the budgeted level for 2003 (6.94% of total spending), the share of public administration expenditure, within total public spending, is expected to be 8.57% in 2004, 9.59% in 2005, and 8.99% in 2006.

In terms of the economic classification of expenditure, current expenditure will comprise the largest portion of public administration expenditure, amounting to 91.5% of the total spending in that sector over 2004-2006. Wages and compulsory social payments represent the largest portion of current expenditure.

Due to this factor, the augmented wage fund will increase by 3.5 billion drams between 2003 and 2004. This increase is caused by the impact of the increase in wages of top officials, tax and customs employees and civil servants introduced in July 1, 2003 (2.9 billion drams) over a full year; as well as the application of the ROA Law “On Remuneration of Civil Servants” (0.6 billion drams).

The wage fund (with the augmentation) will increase by 5.0 billion drams in 2005 and 2.8 billion drams in 2006. This reflects the application of the ROA Law “On Remuneration of Civil Servants” (0.3 billion drams and 8.1 billion drams, respectively), by setting the base official wage rate of civil servants at 30,000 drams in 2005, and at 45,000 drams in 2006, as well as by the increase in wages of those providing conceptual and technical services (by around 0.4 billion drams in 2005), and by the 10% increase in wages of tax and customs employees for 2005-2006.

**Chart 6.2. Distribution of Additional Expenditures in Public Administration Bodies for 2004-2006, by Consolidated Economic Classification Groups (Percent)**



Expenditure on maintenance of public administration bodies will increase by 11.8 billion drams over 2004-2006, as compared with the 2003 indicator. Of that amount, 4.0 billion drams will be expenditures directly and solely due to meeting the requirements of various laws.

It is worth mentioning that the proposed changes in communication and water supply tariffs have been considered in estimating the expenditure for maintenance of public administration bodies.

#### External Financial Assistance to the Public Administration Function

As already mentioned, reforms in the public administration system have been implemented – and, in the medium-term, will be implemented – through external financial assistance.

In particular, the Government will develop judicial reforms assisted by the World Bank. The programme for judicial reforms has been targeted at strengthening judicial administration through assisting the Council of Court Chairmen, improving judicial office work and the skills and abilities of judges and legal specialists, providing businesses and citizens with an accessible and inclusive system of legal information, as well as implementing works for construction and renovation of court buildings.

The total programme is expected to cost 8.6 million SDR, and the deadline for completion is December 31, 2005.

Assisted by the World Bank, the ROA Government will also implement a public sector reform programme, largely focused on supporting the reforms through the provision of technical and consultative assistance. Reforms introduced within the framework of this



programme will support the enhancement of transparency, accountability and efficiency of the public sector, in areas such as the administration of the civil service, the procurement system, financial management, the development of policies and the provision of services. Negotiations are currently in the final stage and the programme will be initiated during 2004. The proposed cost of the programme is not likely to exceed US\$12 million dollars.

## CHAPTER 7. EDUCATION AND SCIENCE

The 2004-2006 medium-term expenditure framework for education and science has been developed on the basis of standards determined by the Steering Committee coordinating the development of the medium-term public expenditure framework in the Republic, as well as on recommendations and comments made by the Co-ordination Committee.

The planning of medium-term expenditures (2004-2006) in the sector has also been based on the Poverty Reduction Strategy Paper approved by the ROA Government.

### SITUATIONAL OVERVIEW

Education has been an important and priority sector in Armenia, with maintenance and development of the educational system, along with assuring its competitiveness in the international arena, considered issues of public and national importance. Further development of the sector has been recognised as a priority for the country's economic development.

The transition period has had a negative impact on Armenia's educational system. In particular, qualitative indicators of education have significantly deteriorated due to the reduction of public expenditure on education. In spite of some increases in public education spending in recent years, expenditure as a percent of GDP is still almost two times lower than the OECD average. Expenditures provided in the 2003 State Budget for education were 2.17% of GDP, whereas the average in OECD countries is 4.7% of GDP (see: Table 7.1).

**Table 7.1. Public Expenditure for 2000-2003 in General and Vocational Education Programmes as a percent of GDP, and in comparison with OECD Countries**

Indicators	2000	2001	2002	2003	Average of OECD countries
Total education	2.75	2.46	2.09	2.17	4.7
<b>Including</b>					
General education programs	2.26	2.01	1.65	1.72	3.3
Vocational education programs	0.43	0.40	0.38	0.39	0.9

*Note: General education programmes include elementary, basic, and secondary general education, special general education, and initial vocational (technical) education. Vocational education programmes include secondary vocational, higher, and post-higher vocational and additional educational programmes.*

However, the structure of the budget allocation, by different levels of education, is comparable with the respective OECD indicators. In 2003, about 79.4% of the education budget was directed to general education and 18.2% to financing vocational education programmes (the average indicators of the OECD countries were 72% and 20%, respectively).

The following sections provide a general overview of the education sector by key programmes.

**General Education**

There are currently 1,481 general education schools operating in the Republic, of which 17 are elementary, 146 are basic, and 1,318 are secondary schools.

There are 520,579 students studying in general education institutions. Due to the sharp decline of the birth rate and to the high level of emigration, the number of school-aged children in the Republic has continuously declined.

Despite the declining trends in recent years, overall enrolment in basic general education has still been rather high and, in essence, has not resulted in serious problems. This inference can be made from an analysis of both gross and net indicators of enrolment. In particular, results of the 2001 household survey show that, although enrolment of 7-year-old children is rather low at about 47%, (which could be attributed to children's enrolment in schools at a higher age, for example, at the age of 8), in the age group of 8-15 (which could be considered an approximation of the basic general education period) the net level of enrolment is 98.7%.

Enrolment in senior school (including initial vocational (technical) education) has not changed significantly and has been fluctuating within the range of 70% to 75%.

The operational efficiency of the educational system has been far from satisfactory, in spite of Government actions to improve the education situation in recent years. While this refers to the utilisation of both the labour force and capital, efficiency issues have been more critical in terms of labour force utilisation.

At present, 54,276 pedagogues are employed in the general education sector, of which 4,486 are employed for less than 0.5 FTE<sup>14</sup>, 19,869 are employed for less than 1 FTE, 97,33 are employment for 1 FTE, and 20,188 for more than 1 FTE. As compared with previous years, the number of pedagogues has decreased, yet this decline is not comparable with the decline in student numbers. The number of students, as compared with last year, has decreased by 2.8%, whereas the number of teachers has decreased by 2.3%.

The excessive number of teachers and schools results in an inefficient allocation and utilisation of public financial resources.

The factors contributing to the low level of efficiency include:

- (i) The low level of student/teacher FTE and student/non-teacher ratios in general education schools, which were 11 and 21.2, respectively, in 2003. These

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<sup>14</sup> FTE – Full-time equivalent

indicators are approximately 25% below the respective average indicators of OECD countries, even though OECD ratios could also be considered inefficient;

- (ii) The low level of teachers' teaching load, which is 18 hours per week and 16 hours per week in colleges. If extracurricular work (preparation of lessons, checking of writing books etc) is also taken into account, indicators of teaching load could reach the level of 27 hours per week. For comparison, in OECD countries the teaching load is 38 hours per week, while in the public sector of the Republic of Armenia, employees work an average of 41 hours per week.
- (iii) The low number of students per class (at present, the average class size is 21 students). According to the standard criteria of secondary education, it should be 25 to 30 students (in junior schools – 20 to 25 students).

The low level of teachers' remuneration is still a matter of serious concern. A teacher's annual salary was only 49% of Armenia's per capita GDP in 2003, in contrast to 97% to 145% in OECD countries (depending on educational level and experience). The low level of teachers' salaries is partly due to their low workload.

As a result, the professional quality of teachers and the reputation of the teaching profession have been gradually eroding. Only 4% to 5% of teachers employed in the general education system take annual retraining courses. This is highly unsatisfactory for assuring the 5-year cycle of retraining. Moreover, the retraining process itself is in need of improvement.

There is no system for assessment of teaching and knowledge in compliance with international standards.

During the transition period, the grave condition of the sector was also caused by insufficient allocations for the maintenance and operation of buildings, for replenishment of teaching materials, and heating requirements.

The standard used for calculating the nutrition needs of students of boarding and special schools is incomparably low and does not reflect real needs.

### **Vocational Education**

In spite of reductions in budgetary allocations to education during the transition period, the system of vocational education has basically been preserved.

Enrolment in this sector has been relatively stable, with about 22% of those aged 17 to 24 involved in vocational education programmes, within the period of 1997-2001.

There are currently 72 state secondary vocational and 19 state higher educational institutions with 6,509 and 18,079 students, respectively. In volume terms, the system of higher education has markedly expanded. This is due to the introduction of paid educational services - in contrast to the system of vocational education.

However, operational efficiency of this system is also far from satisfactory. In particular, higher education institutions, in comparison with their counterparts in other countries, are rather small. This contributes to a thin spreading of resources and hinders technical re-equipment and enhancement of teaching quality. Student/instructor and student/non-instructor ratios are also extremely low.

A comprehensive analysis is needed to develop a strategy for improvements in this sector. Nevertheless, there is also a need to clarify public participation in management issues, mechanisms of public financing etc.

The accessibility of the vocational education system to poor groups of the population is an important issue - both for the sustainable development of society and to reduce poverty and the risk of impoverishment.

It should be stressed that, within the planned period, the authorities will take the necessary actions for increasing the level of enrolment both in senior school and in vocational education, including focusing on equity issues.

#### **KEY OBJECTIVES OF EDUCATION EXPENDITURES FOR 2004-2006**

##### ***General Education***

To ensure the efficient and purposeful utilisation of budgetary resources, all general education schools will switch to a new form of financing and to a board management system (Government's Decree No 444 of April 25, 2002) in 2004. The new method of calculating school financing, by a formula based on the number of students, will not apply to general education schools included in the list approved by the Government's Decree No 773 of August 25, 2001. The financing of these schools will be provided irrespective of the number of students and will be determined by the number of classes.

It is envisaged that improvements and optimisation of the general education system at all three levels (national, territorial and intra-school) will take place over 2004-2006 to optimise the teacher FTE/student ratio.

For the period of 2004-2006, with the support of the World Bank financed credits within the framework of the Education Quality and Relevance Project, curriculum and standard criteria for all subjects will be developed and introduced, also assuring retraining and advanced professional training of teaching personnel.

There will be a computerisation of general education schools via the introduction of information technologies (IT).

The aim is to retrain, re-qualify and attest at least 50% of teachers by 2005, including continuing the process of Diaspora teachers' retraining.

Efforts will be made to facilitate broad participation across communities and of parents in the process of managing and developing schools.

The calculation of funding for providing educational institutions with accommodation and resources for capital repair, as determined by the 2004-2006 medium-term expenditure framework, is based on the Decree No 251-A of the ROA Prime Minister dated May 30, 2003, "On Assuring Execution of the Order of the ROA President No NK 29-N Dated May 17, 2003", as well as on the "Complex Plan for Capital Repair and Improvement of General Education Schools of the Republic of Armenia" developed by the Ministry of Urban Development and approved by the Decree No 593 of the ROA Government dated May 20, 2002.

Construction of boiler houses operating on natural gas will be started.

In terms of school materials, the issue of providing schools with schools desks is a priority.

### ***Vocational Education***

By improving the quality of general education, the level of enrolments in vocational education will be enhanced, including equity in enrolments.

Although the secondary vocational and higher education sectors are seen as secondary priorities within medium-term expenditure framework, the main objectives of the policy in these sectors includes assuring compliance with the market economy, improvement of educational quality in line with international standards, and enhancement of equity in the accessibility of education.

There are the following priorities in vocational education:

- (i) Adoption of the ROA Law "On Higher and Post-Higher Vocational Education";
- (ii) Development of the draft ROA Law "On Making Changes in the ROA Law "On Public Non-Commercial Organisations"", so as to bring it into line with the ROA Law "On Higher Education";
- (iii) Development and approval of the new strategic plan of the ROA Government "On Improvement of Higher Education", including appropriate procedures for assuring broader self-governance of higher education institutions, for the licensing system, as well as for the optimisation plan of institutions of the higher education system, and for admission to tertiary educational institutions;

- (iv) Achieving improvement in the qualification of higher education institutions and of the teaching staff.

In the medium-term, improvements carried out in the system for enhancing efficiency of expenditure should be aimed at:

- (i) Achieving a higher level of enrolment;
- (ii) Application of more efficient and targeted public assistance methods, so as to not only contribute to the development of higher education, but also to make it more accessible for all groups of society;
- (iii) Improvement in the management of public higher education institutions, especially in terms of financial management;
- (iv) Substantial enhancement of internal efficiency in the public sector;
- (v) Assuring the diversity and flexibility of the education system and efficient links with the labour market;
- (vi) Bringing the system into line with international standards of organisation and quality.

The financing of education by state order has, in essence, changed from procurement of goods and services to making transfer payments. There is a need to transform the focus of the system to *student benefits*, including changing the principles and mechanisms of financing. In particular, unlike the current system, student benefits should be provided, not to the higher education institutions, but directly to the students – on the basis of their results.

After introduction of student benefits, the present system of educational stipends will be eliminated. In order to assure a more efficient and targeted use of the released resources, there is a need to provide larger benefits to a smaller number of students, which would enable them to pay their tuition. The priority for benefits should be needy students in the form of *concessional loans*, which would enhance the responsibility of students, thus creating additional incentives for improving their advancement.

The plan also emphasises the improvement of secondary vocational and additional education programmes, which will enable implementation of retraining in line with market demand, providing for special mechanisms of participation and retraining of the long-term unemployed.

#### **EXPENDITURE PRIORITIES IN EDUCATION FOR THE 2004-2006 MTEF PERIOD**

As stated in the Poverty Reduction Strategy Paper, approved by the ROA Government, *elementary, basic and secondary general education* are a basic priority in education

within the medium-term expenditure framework, in terms of improvement of the quality and efficiency of services provided in this sector.

The importance of this sub-sector is reinforced by the fact that secondary education is a pre-requisite for receiving further vocational education. Equally accessible and high-quality basic general education is also an important pre-requisite for improving the level of public erudition and literacy, as well as assuring the primary knowledge and education necessary for entering the labour market and for further studying.

By prioritising improvement in general education quality, the state plans to create the basis for increasing the level of enrolment in senior school and in vocational education, especially for children of needy families.

The determination of priorities in education is particularly determined by the following factors:

- (i) General education involves the largest group of beneficiaries and, in essence, services at this educational level are almost equally accessible for all social groups;
- (ii) There is a significant discrepancy between per student expenditures in general and vocational programs (especially those of higher education): per student expenditures in vocational education are almost 4 to 5 times greater than those in general education schools (in the OECD countries this indicator has been fluctuating around 2 in recent years);
- (iii) Inequality in secondary vocational education institutions is relatively low, however per student expenditures lag significantly behind those in higher education institutions.

Taking into account the above-mentioned factors, *general education* has to be the key public priority in education. Public expenditure policy will be targeted at mitigating the present discrepancy between per student expenditures at different educational levels. This will be implemented through progressive increases in per student expenditure in general education (as compared to those in vocational education). On the other hand, greater importance will be attached to secondary vocational and additional education sectors.

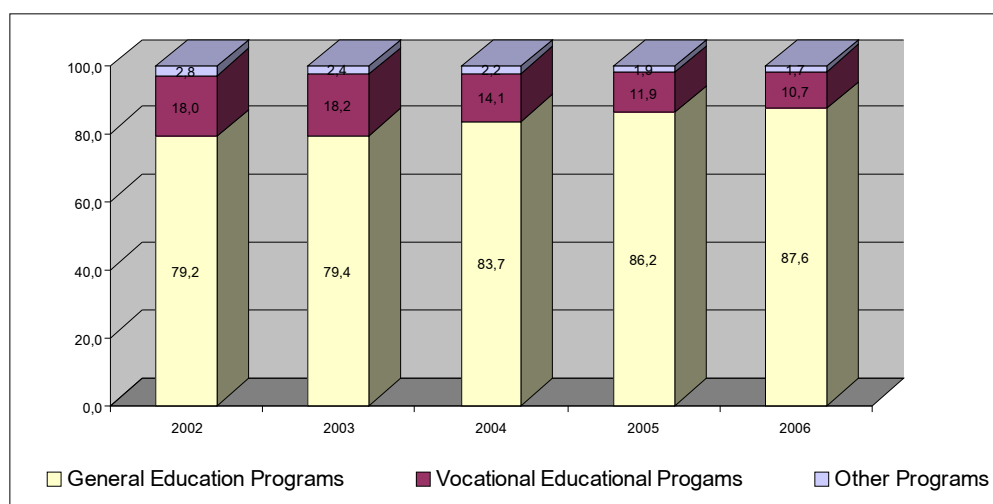
Although the major part of education expenditure within the MTEF period will be directed to general education, improving the quality of vocational and retraining programmes and bringing them into line with the county's social-economic development objectives, will also be of fundamental importance, given structural adjustments in the economy. In particular, the framework emphasises the improvement of secondary



vocational and additional education programmes, which will enable implementation of retraining in line with market demand, providing special mechanisms for the participation and retraining of the long-term unemployed.

The state will also attach greater importance to additional education and retraining programmes, for the purpose of mitigating the present discrepancy between labour force potential (supply) and labour market demand.

**Chart 7.1. Public Expenditure in Education for 2002-2006, by Different Levels of Education (Percent of Total Expenditure in Sector)**



*Note: General education programs include elementary, basic, and secondary general education, special general education, and initial vocational (technical) education. Vocational education programmes include secondary vocational, higher, and post-higher vocational and additional educational programs.*

Chart 7.1 presents the structure of expenditure for general and vocational education programmes, by different educational levels.

### **EXPENDITURE DRIVERS FOR THE 2004-2006 MTEF PERIOD**

Education expenditure within the 2004-2006 medium-term expenditure framework will mainly be directed to general education, which will enable the Government's obligations in that sector to be met. This includes improving the efficiency of the system, as well as assuring the consistency and deepening of the optimisation of general education, namely:

- (i) To increase teachers' average monthly salary by around 66.5% in 2004 and by 43.8% in 2005 – bringing it near to the amount of per capita GDP - and increasing it by 23.8% in 2006 – up to 55,000 drams. The average monthly salary of administrative, maintenance and general service staff will be increased by the same rates. As a result of this increase in wages, the average monthly salary of teachers for the period will be 30,951 drams in 2004, 44,505 drams in 2005 and 55,100 drams in 2006. The average monthly salary of the

administrative staff will be 31,000, 44,574 and 55,182 drams; and the maintenance and general service staff monthly salary will be 12,938, 18,604 and 23,032 drams, by respective years;

- (ii) To provide pupils of elementary classes with free text-books;
- (iii) To introduce an independent heating system with school's own boiler houses (in accordance with the Decree of the ROA Government No 593 dated May 20, 2002);
- (iv) To provide schools with schools desks;
- (v) To increase the calculation norm for meeting nutrition needs of students of special schools, at the same time bringing the number of students studying and newly admitted to boarding schools in line with the standards determined for that type of institution.

In order to address the above-mentioned problems, there is a need to continue and deepen reforms to optimise the education system. The need for optimisation in general education is even more obvious in the light of expected changes in the demographic structure of the population. The planned reforms aim to achieve a more efficient utilisation of human and physical capital in education, as well as to improve the effectiveness of the system's management.

In particular, the following actions are to be taken for enhancing efficiency in general education:

- (i) Increasing student/teacher FTE and student/non-teacher ratios (to 13.7 and 22 in 2004, and to 15.1 and 22 in 2005-2006, respectively);
- (ii) Starting from 2004, increasing the basic teaching workload of the teaching staff to 20 hours per week (and up to 22 hours per week in 2005), while eliminating the difference between the teaching workload of teachers in colleges and other schools;
- (iii) Increasing class size up to 24 in 2004 (assuring the average class size determined by Decrees of the ROA Government No 1392-N dated July 25, 2002, and No 2179-N dated December 26, 2002);
- (iv) Achieving the optimal number of students in schools, by merger of schools if necessary (execution of Decrees of the ROA Government No 1236 dated December 24, 2001, and No 2047-N dated December 5, 2002). This will be achieved in accordance with the principles defined by Decrees of the ROA Government No 773 dated August 25, 2001, and No 1937-N dated December 5, 2002. This includes re-staffing of understaffed classes, integration of two or

three classes into one and, in the case of severe understaffing, merger of schools, and changing the type of school.

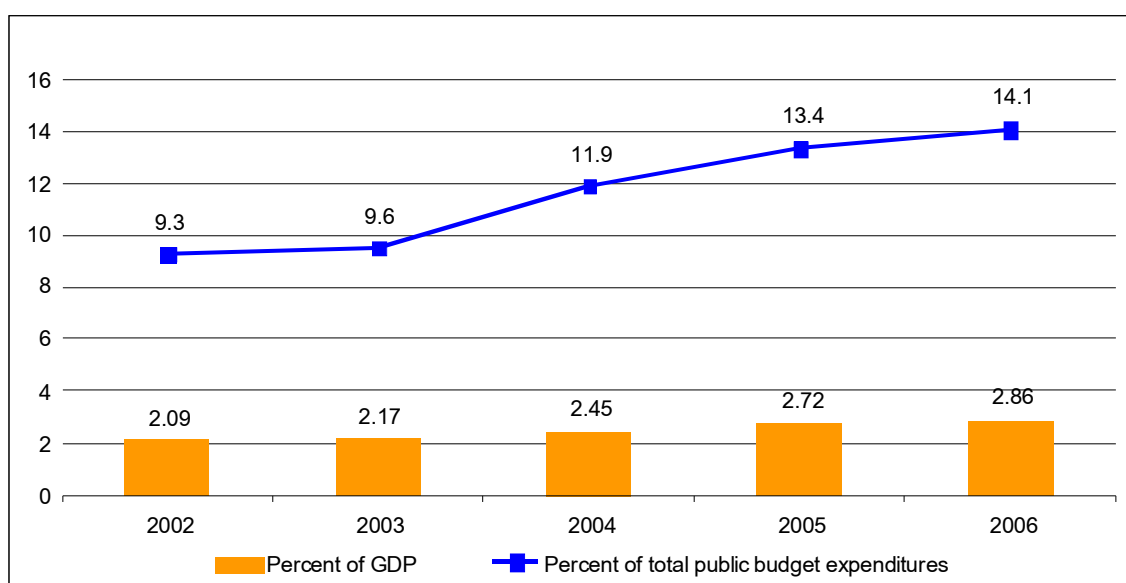
## PLANNED EXPENDITURES

Increasing the volume of public financing of education and improving the overall situation is a priority over the MTEF period.

Expenditures provided for education (including expenditure for maintenance of administrative personnel, capital repair of educational institutions, capital construction, as well as expenditures made under proceedings of the credit project, and those made by the Armenian Social Investment Fund) in the 2004-2006 medium-term expenditure framework stipulate for the allocation of 39,373.4 million drams in 2004, 47,861.3 million drams in 2005, and 54,785.1 million drams in 2006. This represents an increase in expenditure of 23.2% in 2004, 21.6% in 2005, and 14.5% in 2006.

Education expenditure in the 2004-2006 medium-term expenditure framework comprises 2.5% of GDP in 2004, 2.7% in 2005, and 2.9% in 2006.

**Chart 7.2. Target Indicators of Budget Expenditure in Education**



**Table 7.2. Public Expenditure in Education, by Directions 2002-2006**

Subgroup title	2002	2003	2004	2005	2006
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
	<i>Million drams</i>				
<b>TOTAL EXPENDITURE</b>	<b>27 507.9</b>	<b>31 953.0</b>	<b>39 373.4</b>	<b>47 861.3</b>	<b>54 785.1</b>
04.01 Public administration in education and science	77.9	119.2	169.1	178.7	187.7
04.03 Elementary, basic and secondary general education	19 562.1	23 028.7	29 950.7	37 278.4	43 158.8
04.04 Special general education	1 893.8	2 018.5	2 578.8	3 405.7	4 099.3
04.05 Extracurricular training	674.0	677.7	686.9	707.5	728.7
04.06 Initial vocational (technical) education	336.9	309.6	429.2	577.2	727.7
04.07 Secondary vocational education	1 131.6	1 166.0	1 212.2	1 248.5	1 286.0
04.08 Higher and post-higher vocational education	3 538.5	4 004.3	3 900.4	4 008.0	4 128.2
04.09 Additional education	293.1	629.0	446.2	457.3	468.7

2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

	<i>Difference as compared with the previous year, %</i>				
<b>TOTAL EXPENDITURE</b>		16.2	23.2	21.6	14.5
04.01 Public administration in education and science		53.1	41.9	5.7	5.0
04.03 Elementary, basic and secondary general education		17.7	30.1	24.5	15.8
04.04 Special general education		6.6	27.8	32.1	20.4
04.05 Extracurricular training		0.6	1.4	3.0	3.0
04.06 Initial vocational (technical) education		-8.1	38.6	34.5	26.1
04.07 Secondary vocational education		3.0	4.0	3.0	3.0
04.08 Higher and post-higher vocational education		13.2	-2.6	2.8	3.0
04.09 Additional education		114.6	-29.1	2.5	2.5

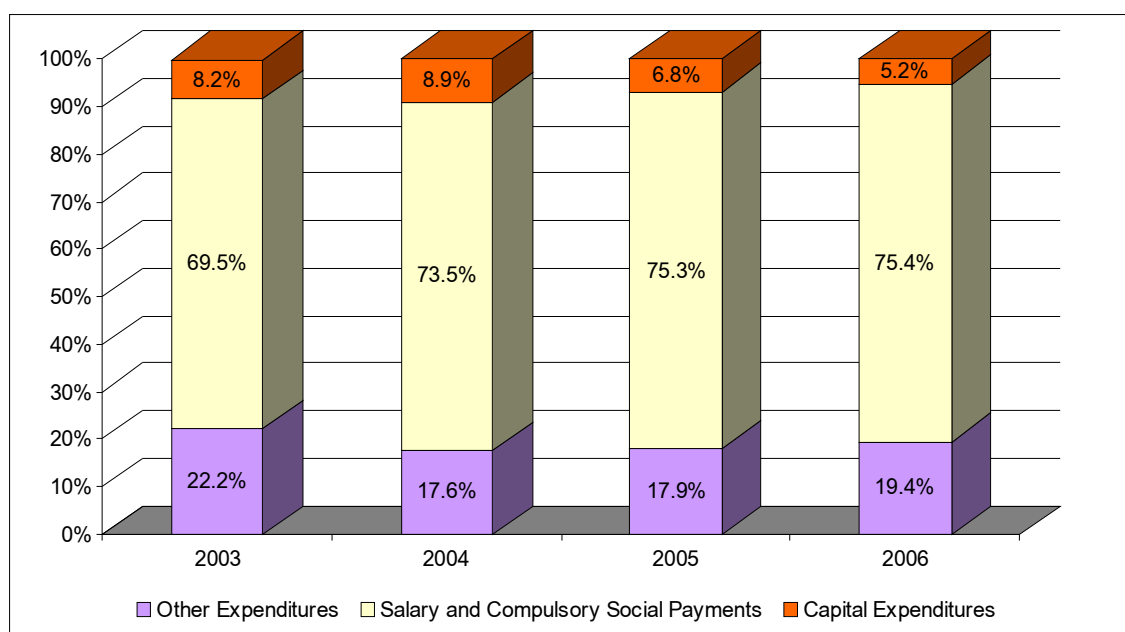
**Table 7.3. Structure of Public Expenditure in Education for 2002-2006, by Levels (Percent of Total Expenditure in the Sector)**

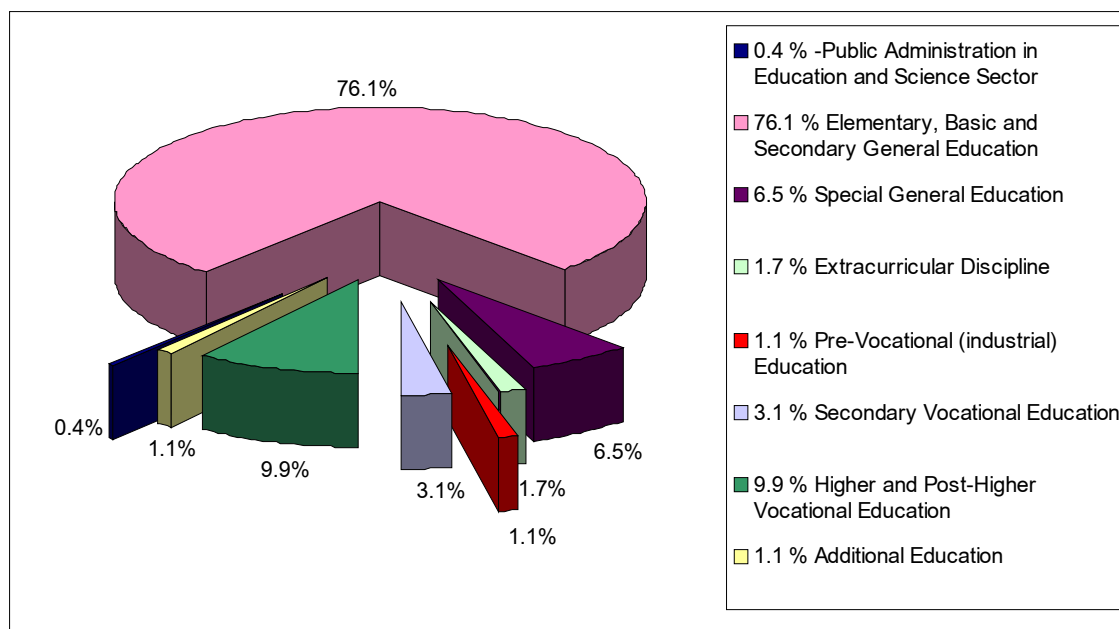
Subgroup title	2002	2003	2004	2005	2006
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
<b>TOTAL EXPENDITURE</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
04.01 Public administration in education and science	0.3	0.4	0.4	0.4	0.3
04.03 Elementary, basic and secondary general education	71.1	72.1	76.1	77.9	78.8
04.04 Special general education	6.9	6.3	6.5	7.1	7.5
04.05 Extracurricular training	2.5	2.1	1.7	1.5	1.3
04.06 Initial vocational (technical) education	1.2	1.0	1.1	1.2	1.3
04.07 Secondary vocational education	4.1	3.6	3.1	2.6	2.3
04.08 Higher and post-higher vocational education	12.9	12.5	9.9	8.4	7.5
04.09 Additional education	1.1	2.0	1.1	1.0	0.9

In terms of the economic classification of expenditure, current expenditure comprises 91.8% of total expenditure and capital expenditure accounts for 8.2% of the total allocation for education. Payments for wages and compulsory social insurance comprise the major part of current expenditure.

Project assistance received from external sources will be an important source for financing capital expenditures.

**Chart 7.3. Public Expenditure in Education for 2002-2006, by Economic Classification Articles (Percent of Total Expenditure in Sector)**



**Chart 7.4. Expenditures in Education in 2004, by Subgroups (Percent)****Public Administration in Education and Science**

Budgeted expenditure for this subgroup will increase by 41.9% in 2004, to 169.1 million drams, or 0.4% of total public expenditure in education. It will increase by a further 5.7% in 2005, to 178.7 million drams, or 0.3% of total public expenditure in education.

**Elementary, Basic, and Secondary General Education**

Within the MTEF period, additional public expenditure in education will be almost completely directed to general education.

Expenditure provided for elementary, basic and secondary general education will increase by 30.1% in 2004, to 29,950.7 million drams, or 76.1% of total public expenditure in education. Expenditure for this subgroup will increase by 24.5% in 2005, to 37,278.4 million drams, or 77.9% of total public expenditure in education, and increase a further 15.8% in 2006, to 43,158.8 million drams, or 78.8% of total public expenditure in education.

The planned increase in public expenditure in general education will result in a substantial increase in per student expenditures. Under this scenario, per student expenditures in 2006 will be double their 2003 level. However, it should be noted, that such a trend in per student expenditure is dependent on the assumed changes in the demographic structure of the population.

**Table 7.4. Per Student Public Expenditure in Education**

## 2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

	2003	2004	2005	2006
Index (2003 indicator = 100)	100.0	130.6	166.9	205.8
<i>Memorandum Articles</i>				
Number of Students (2003 indicator = 100)	100.0	99.6	97.0	91.1
Public Expenditure in Education (2003 indicator = 100)	100.0	130.1	161.9	187.4

Increasing teachers' salaries, and their retraining, have been priority issues in education. Actions taken to realise this objective are considered a pre-requisite for enhancement of the quality of education. The state will continue the policy of increasing salaries. A teachers' salary is expected to reach the dram equivalent of US\$80 in 2005. This salary level is also acceptable in relation to its ratio to annual per capita GDP. In particular, according to the presented scenario, in 2005 teachers' average annual salary will be approximately equal with per capita GDP. In the medium-term, it is also planned to introduce mechanisms for salary differentiation based on professional experience. Such approaches to teacher remuneration will provide real incentives for employed teachers, as well as contribute to the replenishment of qualified teaching personnel in general education schools. Attracting qualified teachers has been most problematic in rural and border areas, which will be the centre of attention of the authorities.

The average salary of administrative and general service staff will also be significantly increased. While this policy will result in current expenditures reaching 84% to 86% of total expenditure in education, in future these expenditures are expected to stabilise at about 70%, enabling the authorities to sufficiently meet other current expenditure needs.

The state will continue the policy of providing elementary school pupils with textbooks. Reconstruction of school buildings and addressing heating problems will also be considered priority issues. In particular, inadequate heating systems and inappropriate housing conditions hinder the educational process, resulting in significant deteriorations in quality. Therefore, a portion of capital expenditures will be channelled to solution of these problems.

There will also be a focus on improving the support of teaching materials and technical equipment. In particular, there will be a focus on equipping schools with modern information technologies, with the assistance of financing from external sources.

### **External Financial Assistance of Education**

In the medium-term, increases in education expenditure is also dependent on the expected inflow of resources under the World Bank financed Education Quality and Relevance Project (hereafter: the Project). This represents 2,556.4 million drams in 2004, 3,509.4 million drams in 2005, and 3,533.1 drams in 2006.

The Project components are as follows:

- (i) Introduction of state standard criteria, curriculum and new system of assessment, including establishment of the Centre for Assessment and Attestation;
- (ii) Introduction of information technologies (IT) in general education schools (computerisation of schools), including establishment of the Centre for Information Technologies,
- (iii) Advanced professional training of teachers;
- (iv) Assistance to general education reforms;
- (v) Expansion of the informational system of education management;
- (vi) Assistance to the implementation of the project.

The project is expected to bring secondary school curricula in line with the admission examinations of higher education institutions. The Project plans to develop mechanisms for switching from a 10-year secondary education to an 11-year system, particularly, by revising the curricula of general education subjects. There are also plans to develop new standards for each subject, new methods and tests for knowledge assessment, as well as to introduce curricula for computerised teaching in the secondary education system.

Preparation for the project began in 2003 and implementation of the project will start in 2004.

In addition to the above-mentioned project, education activities will be funded under the second credit of the Armenian Social Investment Fund, amounting to 887.0 million drams in 2004, 825.3 million drams in 2005 and 419.9 million drams in 2006. In particular, this credit project stipulates the renovation of school buildings in a number of communities, and for construction of schools' own boiler houses, as well as for providing schools with desks.

#### **Special General Education**

Expenditure provided for special general education will increase by 27.8% in 2004, to 2,578.8 million drams, or 6.5% of total public expenditure in education. Expenditures will increase by 32.1% in 2005, to 3,405.7 million drams, or 7.1% of total public expenditure in education, whereas expenditure will increase by 20.4% in 2006, to 4,099.3 million drams, or 7.5% of total public expenditure in education.

The increase in expenditure on special education is mainly driven by the increasing salaries of employees, in line with the general principles of lifting salaries in the entire general education system.

#### **Extracurricular Training**

Expenditures on extracurricular training will be 1.7% of total expenditure in 2004, 1.5% in 2005 and 1.3% in 2006, or 686.9, 707.5, and 728.7 million drams respectively.

### **Initial Vocational (Technical) Education**

Expenditure provided for initial vocational (technical) education will increase by 38.6% in 2004, to 429.2 million drams, or 1.1% of total public expenditure in education. Expenditure will increase by 34.5% in 2005, to 577.2 million drams, or 1.2% of total public expenditure in education, whereas expenditure will increase by 26.1% in 2006, to 727.7 million drams, or 1.3% of total public expenditure in education.

The increase of expenditure on initial vocational (technical) education is mainly driven by the increase in salaries, in line with the general principles of lifting salaries in the entire general education system.

### **Secondary Vocational Education**

For the period of 2004-2006, expenditure on secondary vocational education will be 3.1%, 2.6% and 2.3% of total public expenditure in education respectively or 1,212.2 million drams, 1,248.5 million drams, and 1,286.0 million drams, respectively.

### **Higher and Post-Higher Vocational Education**

Expenditure on higher and post-higher vocational education will be 3,900.4 million drams in 2004, 4,008.0 million drams in 2005, and 4,128.2 million drams in 2006. This represents 9.9%, 8.4%, and 7.5% of total public expenditure in education, respectively.

### **Additional Education**

Expenditure on additional education will be 446.2 million drams in 2004, 457.3 million drams in 2005, and 468.7 million drams in 2006. This represents 1.1%, 1.0%, and 0.9% of the total public expenditure in education, respectively.

## **Annex 7.1 Expenditures in Education over 2004-2006, by Ministries and Departments (Million Drams)**

N	Ministries and Department of the Republic of Armenia	2004			2005			2006		
		Total	Including		Total	Including		Total	Including	
			Current Expenditures	Capital Expenditures		Current Expenditures	Capital Expenditures		Current Expenditures	Capital Expenditures
	<b>Total</b>	<b>39 373.4</b>	<b>35 849.6</b>	<b>3 523.8</b>	<b>47 861.3</b>	<b>44592.0</b>	<b>3269.2</b>	<b>54 785.1</b>	<b>51924.7</b>	<b>2860.4</b>
1	Ministry of Education and Science	9733.3	7096.5	2636.8	11531.9	9088.1	2443.9	12839.5	10399.0	2440.5
2	Yerevan City Municipality	6 790.4	6 790.4	0.0	9281.4	9281.4	0.0	11479.9	11479.9	0.0
3	Aragatsotn Marzpetaran	1 540.7	1 540.7	0.0	1 870.4	1 870.4	0.0	2 245.8	2 245.8	0.0
4	Ararat Marzpetaran	2 279.9	2 279.9	0.0	2492.3	2492.3	0.0	3 112.1	3 112.1	0.0
5	Armavir Marzpetaran	2 281.7	2 281.7	0.0	2579.7	2579.7	0.0	3149.3	3149.3	0.0
6	Gegharkunik Marzpetaran	2 439.5	2 439.5	0.0	3121.0	3121.0	0.0	3140.2	3140.2	0.0
7	Lori Marzpetaran	2 462.5	2 462.5	0.0	2241.0	2241.0	0.0	2 488.5	2 488.5	0.0
8	Kotayk Marzpetaran	2 255.4	2 255.4	0.0	3127.9	3127.9	0.0	3933.1	3933.1	0.0
9	Shirak Marzpetaran	2 862.0	2 862.0	0.0	3405.3	3 405.3	0.0	3974.8	3974.8	0.0
10	Syunik Marzpetaran	1 667.8	1 667.8	0.0	2267.3	2267.3	0.0	2 383.5	2 383.5	0.0
11	Vayotz Dzor Marzpetaran	601.5	601.5	0.0	907.8	907.8	0.0	1 116.6	1116.6	0.0
12	Tavush Marzpetaran	1 179.7	1 179.7	0.0	1728.3	1728.3	0.0	1932.8	1932.8	0.0



2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

N	Ministries and Department of the Republic of Armenia	2004			2005			2006		
		Total	Including		Total	Including		Total	Including	
			Current Expenditures	Capital Expenditures		Current Expenditures	Capital Expenditures		Current Expenditures	Capital Expenditures
13	Ministry of Agriculture	172.3	172.3	0.0	183.0	183.0	0.0	192.5	192.5	0.0
14	Ministry of Culture and Youth Affairs	182.7	182.7	0.0	220.8	220.8	0.0	258.0	258.0	0.0
15	Ministry of Health	207.6	207.6	0.0	213.8	213.8	0.0	220.3	220.3	0.0
16	Ministry of Energy	19.7	19.7	0.0	20.3	20.3	0.0	20.9	20.9	0.0
17	Government's Staff	987.0	100.0	887.0	925.3	100.0	825.3	519.9	100.0	419.9
18	Police at the Government	250.0	250.0	0.0	258.1	258.1	0.0	265.8	265.8	0.0
19	Ministry of Defence	500.0	500.0	0.0	500.0	500.0	0.0	500.0	500.0	0.0
20	National Security Service at the Government	51.0	51.0	0.0	53.0	53.0	0.0	54.6	54.6	0.0
21	Civil Service Council	123.2	123.2	0.0	126.9	126.9	0.0	130.8	130.8	0.0
22	Ministry of Justice	45.9	45.9	0.0	46.2	46.2	0.0	46.5	46.5	0.0
23	Ministry of Social Security	14.1	14.1	0.0	14.6	14.6	0.0	15.0	15.0	0.0
24	Ministry of Finance and Economy	42.0	42.0	0.0	42.0	42.0	0.0	42.0	42.0	0.0
25	Emergency Department at the Government	20.6	20.6	0.0	21.3	21.3	0.0	21.9	21.9	0.0
26	State Sports Committee of the Government	662.9	662.9	0.0	681.3	681.3	0.0	700.7	700.7	0.0

## **SCIENCE**

### **SITUATIONAL OVERVIEW**

In 2000, the ROA Law “On Scientific and Scientific-Technical Activities” was adopted, determining the formulas for base, project-targeted and contractual (subject-specific) financing of scientific and scientific-technical activities. In order to improve the system of financing science, the aim is to expand the base financing of science, and to introduce public project-targeted financing. The latter, being absent in previous years, appears to be the most appropriate approach for today. In 2001, the Ministry of Finance and Economy and the Ministry of Education and Science developed regulations for the following three forms of budgetary financing:

- (i) Base financing of scientific and scientific-technical activities;
- (ii) Contractual (subject-specific) financing of scientific and scientific-technical activities;
- (iii) Project-targeted financing of scientific and scientific-technical public programmes.

These regulations have been approved by Decrees of the ROA Government No 1121, 1122, and 1123, dated November 17, 2001.

In 2002, according to the Regulation of “Contractual (subject-specific) Financing of Scientific and Scientific-Technical Activities”, the Ministry of Education and Science initiated the process of contractual (subject-specific) financing envisaged for the period of 2002-2004. Contracts have been signed with directors of scientific subjects, with respective timelines.

In the 2003 State Budget, three of four components of base financing have been implemented. In addition to the previously operating projects for maintenance and development of scientific and scientific-technical activities’ infrastructure (439,996 thousand drams) and for training of scientific personnel (50,001 thousand drams), the third one – for maintenance of scientific objects of national importance (104,737 thousand drams) – has been started.

In the Republic, 125 scientific institutions are involved in budget financed scientific activities, of which 120 are using subject-specific financing, employing about 6,050 researchers and executing 949 themes with an amount of 20,450 million drams.

In the 2003 Budget, the share of science was 2,961.5 million drams.

### **KEY OBJECTIVES OF EXPENDITURES ALLOCATED TO SCIENCE FOR 2004-2006**

Any increase in budgetary financing allocated to science over 2004-2006 will be directed to increasing the shares of base and project-targeted financing to 37% and 10% within the total amount of financing. In comparison, the share of contractual (subject-specific) financing will be reduced from 69% to 53% of the total, at the same time preserving the its absolute level of funding. If such an increase in financing takes place, the final goal is 50% of base, 10% of project-targeted, and 40% of contractual (subject-specific) financing, to be reached in eight years.

Starting from 2005, the Ministry of Education and Science will apply the principle of counterpart funding, which will partially solve the problem of the scarce budgetary resources available for science. Armenian science faces the challenge of active participation in international scientific life and of integration into international scientific programmes. In fact, scientists receiving subject-specific financing already utilise counterpart financing and also obtain extra-budgetary financing, that is, grants, and investments from international collaboration. The challenge is to regulate this process during 2004 through elaboration the relevant legislative statements.

The issue of establishing a fund for the stimulation of science should be considered. The principle of counterpart funding will serve as an additional incentive for assuring timely and relevant scientific research and development, as the proposed projects must be capable of attracting funding, taking into consideration, that the ROA Government – as a counterpart financing party of those scientific projects – assumes a certain share of responsibility.

**Table 7.5. Expenditure in Science for 2003-2006, by Projects (Million Drams)**

Financing Mechanism	2003	2004	2005	2006
	<i>Project</i>	<i>Forecast</i>		
<b>Science, total</b>	<b>2 961.4</b>	<b>3 263.6</b>	<b>3 558.3</b>	<b>3 962.1</b>
<i>Including<sup>a</sup></i>				
<i>Contractual (subject-specific)</i>	<b>2 045.0</b>	<b>2 045.0</b>	<b>2 045.0</b>	<b>2 045.0</b>
<i>Percentage of total expenditures in science, %</i>	69.1	62.7	57.5	51.6
<b>Base</b>	<b>648.7</b>	<b>892.5</b>	<b>1 157.2</b>	<b>1 531.0</b>
<i>Percentage of total expenditures in science, %</i>	21.9	27.3	32.5	38.6
<b>Project-targeted</b>	<b>267.7</b>	<b>326.1</b>	<b>356.1</b>	<b>386.1</b>
<i>Percentage of total expenditures in science, %</i>	9.0	10.0	10.0	9.7

## **CHAPTER 8. HEALTH CARE**

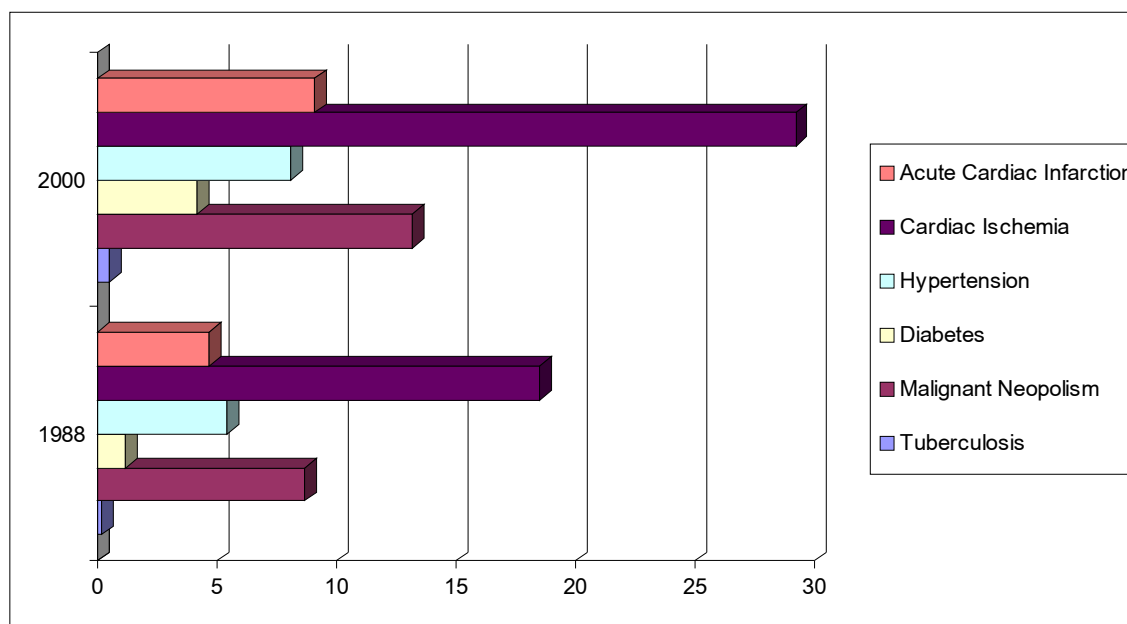
The 2004-2006 medium-term expenditure framework for health care has been developed on the basis of the Constitution of the Republic of Armenia, of the ROA Law “On Medical Care and Service of Population”, of the Decree of the ROA Government dated June 17, 2003 “On Approving the Action Plan of the Government of the Republic of Armenia”, of other requirements of relevant legal statements, and taking into consideration the principles defined by the World Health Organisation, organisational-structural changes introduced into the health care system of the Republic of Armenia, and the optimisation programme.

Development of the 2004-2006 medium-term expenditure framework in health care has been based on principles of assuring accessibility, service quality and fairness in provision of medical care, aiming to increase the availability of medical care, to improve the structure, management and financing of the system, to enhance the role of the primary health care system, with the main focus on meeting the needs of poor groups of the population.

For every nation, health care is the most important component of national security and one of the fundamental social issues. Over 2004, the health care system will face the challenge of preventing unfavourable factors undermining the normal operations of the sector in the process of reforms and optimisation; and, in the context of existing resources and capacity, guarantee citizens’ constitutional right to health care by enhancing the accessibility of free state-guaranteed medical care.

### **SITUATIONAL OVERVIEW**

The basic health care problem of the Republic of Armenia is the decreasing availability of medical care, especially for the most vulnerable groups of the population. This has resulted in a reduction in the number of people making timely applications for medical care despite a background of increasing morbidity. Between 1988 and 2001, the number of tubercular patients has increased by 1.8 times, the number of diabetics by 1.3 times, the number of acute cases of cardiac infarction and malignant neoplasm by 1.1 times. Despite a reduction in the population due to emigration in recent years, the demand for medical care has not declined. This reflects the fact that the majority of emigrants are of average-age, and the share of the elderly and children in the present population – with a greater need for medical care - has significantly increased. Given the present high rate of morbidity, this fact is also shown in the increasing trend of mortality per 100,000 of population.

**Chart 8.1. Population Mortality, by Diseases (Per 100,000 of Population)**

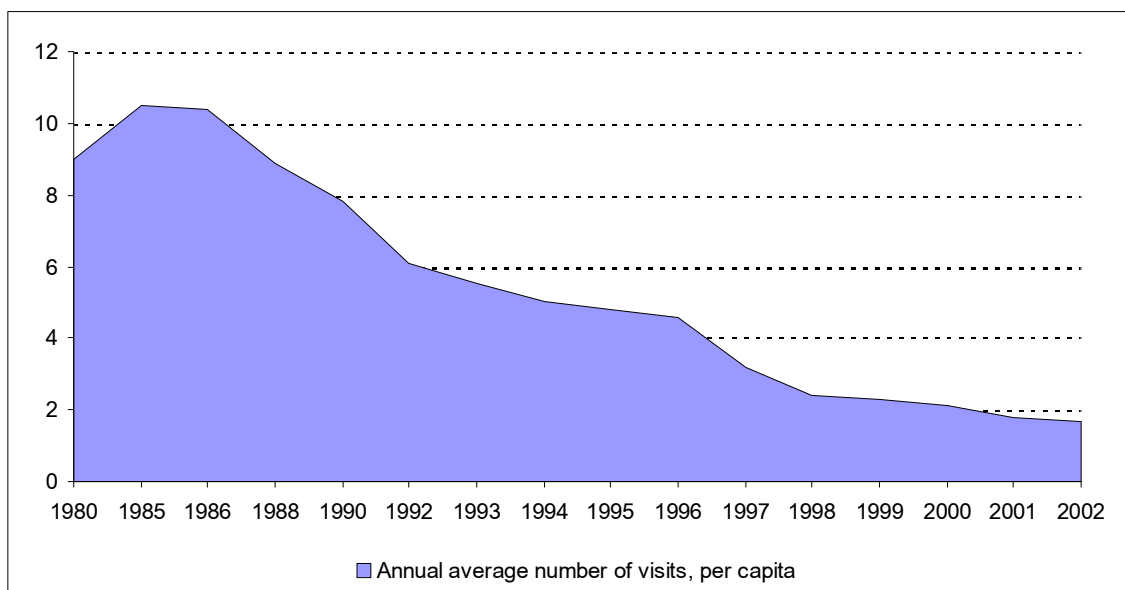
Deterioration in the health of the population is also evident in maternal and infant health indicators. Given that the level of pre-natal monitoring has decreased by two times, the frequency of pregnancy pathologies and defective pregnancies has increased. The number of pregnancy anaemia cases has increased by more than 10 times. Infant morbidity and under-weight births have increased by 15% to 20%. Although infant mortality in 1998 has decreased by one third, as compared with the 1990 indicator (from 18.5 cases down to 14.7, per 1,000 live-births), there has been an increasing trend in recent years (15.4 in 2001)<sup>15</sup>. The increasing rate of infant mortality in both homes and 24-hour hospitals has become an issue of serious concern. The number of disabled children has increased almost two times in recent years. In spite of some success in the immunity-prevention project, a number of basic problems remain.

The basic problem of preventing venereal infections and encouraging healthy lifestyles is of strategic importance in primary health care. Fighting against HIV/AIDS, especially preventing transmission of disease from the mother to the child, is a key issue in the improvement of maternal and infant health.

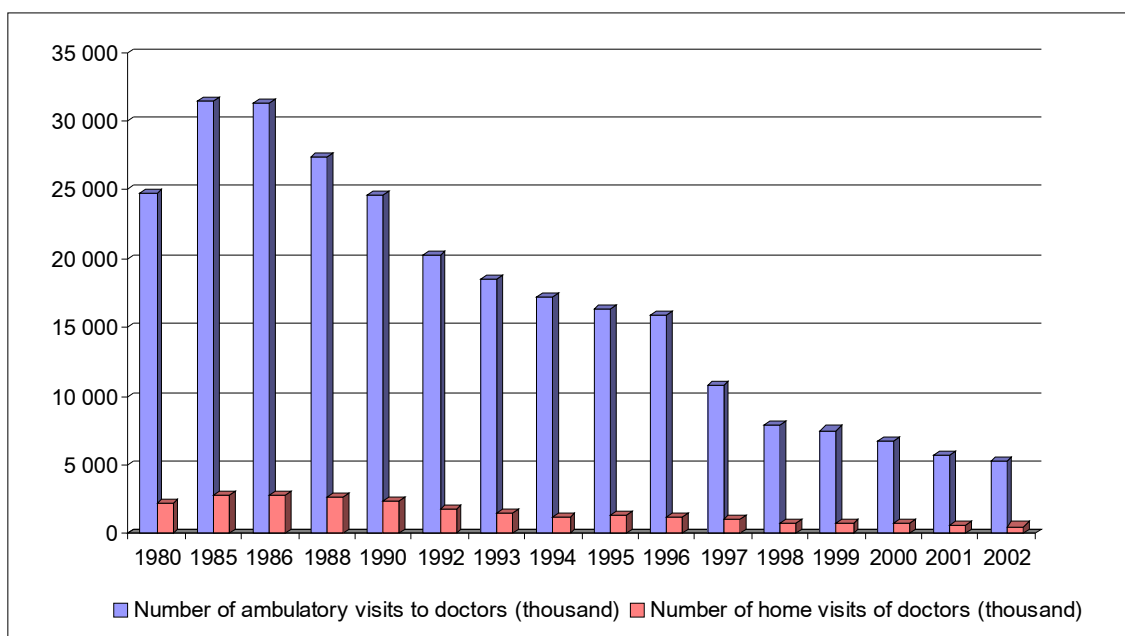
The number of visits to ambulatory-polyclinic institutions, as compared with the 1980 indicators, has decreased by almost 5 times. The number of visits to doctors has also decreased – by almost 4 times, and the annual average per capita visits by almost 5 times.

**Chart 8.2. Dynamics of Ambulatory-Polyclinic Visits (Per Capita)**

<sup>15</sup> It is worth mentioning that the National Statistical Service data concerning maternal and infant mortality differ substantially (are almost two times smaller) from Armenia's Demographic and Health Survey results conducted in 2000 (see: Armenia's Demographic and Health Survey, Yerevan, 2001)

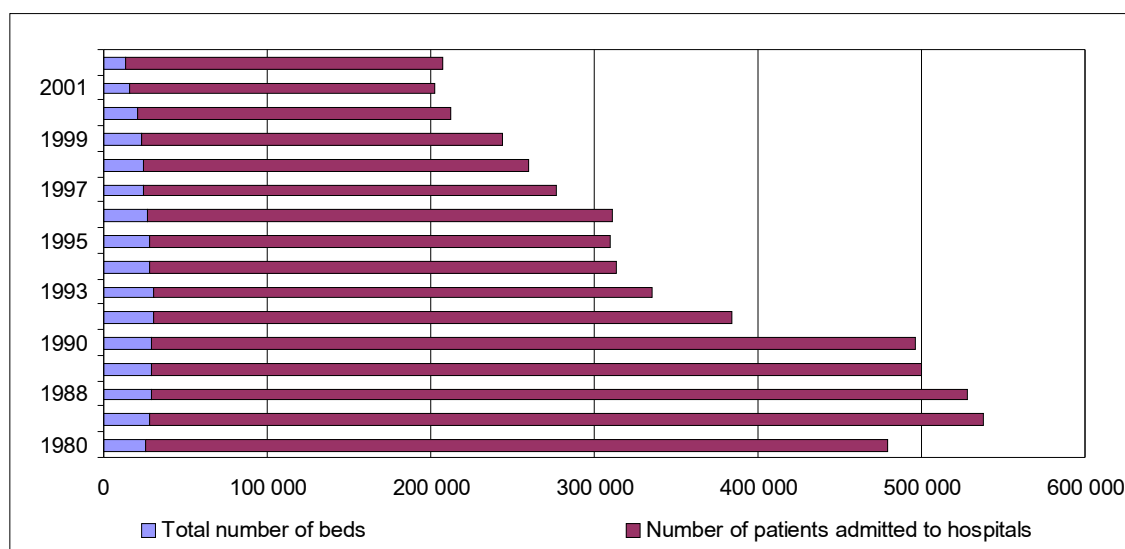


**Chart 8.3. Structure of Ambulatory-Polyclinic Visits**



Primary health care, which is the most accessible, and is focused on the most important function of prevention, currently operates inefficiently, with a low quality of service. The number of patients that received medical care in hospitals has decreased by 2.5 times, as compared with the 1980 indicators.

**Chart 8.4. Number of Hospital Beds and Admitted Patients**



Given that medical institutions operating in the health care system substantially outnumber – in terms of their quantity, capacity, and staff - the present demand (including demand generated due to state-guaranteed programmes), the ROA Government has approved, by its Decree No 80 dated February 05, 2001, optimisation of the health care system. This includes a schedule for optimisation by regions and for Yerevan City. Due to implementation of the optimisation plan during 2001, the bed stock has dropped by about 5 thousand units as of January 1, 2003, annual bed occupation has increased by 20 days and, by expert assessment, the overall economic efficiency of the project has increased by a value of 2.0 billion drams. In the coming years, optimisation of the health care system will be deepened. Moreover, the introduction of a system for providing medical care through the counterpart payment principle is proposed in 2003.

Given the downward trend in the level of medical care provided to the population, combined with the presence of real demand, and taking into consideration the surplus of health care resources, there is a need to undertake rationalisation of the system, while increasing the quality of the service and being able to meet the increasing demand for medical care both at the ambulatory-polyclinic and hospital levels.

Given an ongoing increase in public expenditures on health care, there is also the problem of assuring more targeted and efficient expenditure, as well as of enhancing the accessibility of medical services. An increase in public expenditures on health is one of the priority mechanisms for improving the situation in the sector. Public expenditure on health care is expected to increase over the entire MTEF period.

Increasing population displacement and the country's social-economic situation over recent years have been reflected in the development of epidemics. Diseases like malaria

and leishmania, which have not been typical for Armenia, have now penetrated into the country. For the period of 1995-2001, there were reported cases of malaria, enteric typhoid, intestinal infectious diseases, fits of hepatitis “A”, anthrax, etc. The incidence of reported food poisoning cases (botulism, fungal poisoning) has substantially increased.

The country still lacks a well-developed system of health and health care. Health care is not considered a basic human right and a crucial interdepartmental issue. The population does not fully recognise its responsibility in choosing healthy lifestyle in order to preserve their own health. There is no up-to-date health statistical and informational-analytical system in the country. The development and implementation of normative acts for the prevention and monitoring of infectious diseases, as well as the implementation of analytical and organisational activities, is insufficient.

To enable the preservation and improvement of the population’s health, including the increased availability of medical care for the poor, there is a need to facilitate participation and co-ordination of the activities of all civil society institutions.

Accessibility will be enhanced by increases in public expenditures in health care, intra-sector reallocation, and optimisation of public resources, as well as through improved efficiency due to management reforms.

#### **KEY OBJECTIVES OF EXPENDITURES ALLOCATED TO HEALTH CARE FOR 2004-2006**

Objectives of public programmes implemented in health care are as follows:

- (i) Assuring the hygienic and anti-epidemic security of the population;
- (ii) Assuring primary health care is provided to the population;
- (iii) Assuring maternity and infant health care is provided to the population;
- (iv) Assuring provision of medical care to vulnerable groups of the population and to those included in separate (special) groups;
- (v) Assuring provision of medical care to those being treated for diseases of special social significance.

Implementation of the programmes will support the achievement of the following results over 2004-2006:

##### *Primary (Ambulatory-Polyclinic) Care*

- (i) Reduce the average level of cardiovascular diseases by 10%;
- (ii) Reduce the number of hospitalisation cases for micro- and macro-vascular complications and diabetics by 5%;
- (iii) Reduce the number of hospitalisation cases for hypertension complications and diabetics by 3%;



- (iv) Improve the indicator of early diagnosis of tumour diseases by 15%;
- (v) Increase the share of preventative actions within primary medical-prevention activities;
- (vi) Train approximately 100 family doctors annually;
- (vii) Increase the level of instrumentation with laboratory-instrumental diagnostic equipment and technologies, medicines and medical appliances;
- (viii) Improve the quality of provided medical care;
- (ix) Increase the level of availability of medical services for insolvent groups of the population.

Maternal and Infant Health Care

- (i) Assure early consultative care for at least 70% of pregnant women;
- (ii) Reduce the maternal mortality rate by one third;
- (iii) Reduce the number of cases of childbirth at home, achieving 100% inpatient deliveries;
- (iv) Reduce infant mortality for children of 0 to 1 and up to 5 years old, at least by 25%, including reduction of mortality because of respiratory diseases (by 10%) and from diarrhoea (by 15%);
- (v) Reduce the number of under-weight and premature newborns by one-fourth;
- (vi) Assure 90% of children receive preventive inoculations;
- (vii) Develop and implement programmes for physical, psychic, and mental development of children and juveniles.

Assuring Hygienic and Epidemic Security

- (i) Eliminate local cases of diphtheria;
- (ii) Reduce the number of hepatitis “B” virus carriers by at least 40%;
- (iii) Reduce tuberculosis morbidity and mortality by 10%;
- (iv) Reduce the number of reported cases of malaria to lower than 5 per 100,000 of the population, and prepare for eradication of that disease;
- (v) Reduce, and keep at a low level, the incidence of diarrhoea cases and mortality;
- (vi) Eradicate rubella and declare rubella-free zone for certification.

Plan for Fighting Against Diseases of Special Social Significance

At hospital level:

- (i) Bring the level of reimbursement for the provision of medical care and services near to the real level of expenditure;
- (ii) Enhance availability of medical care for the population;

- (iii) Enhance supply of certain items (medicines, medical appliances, food etc) that are necessary for the provision of medical care;
- (iv) Reduce informal expenditures (shadow turnover);
- (v) Enhance the level of modernisation of equipment;
- (vi) Propagate the application of modern technologies, especially in the regions.

### **MAIN EXPENDITURE PRIORITIES IN HEALTH CARE FOR 2004-2006 MTEF PERIOD**

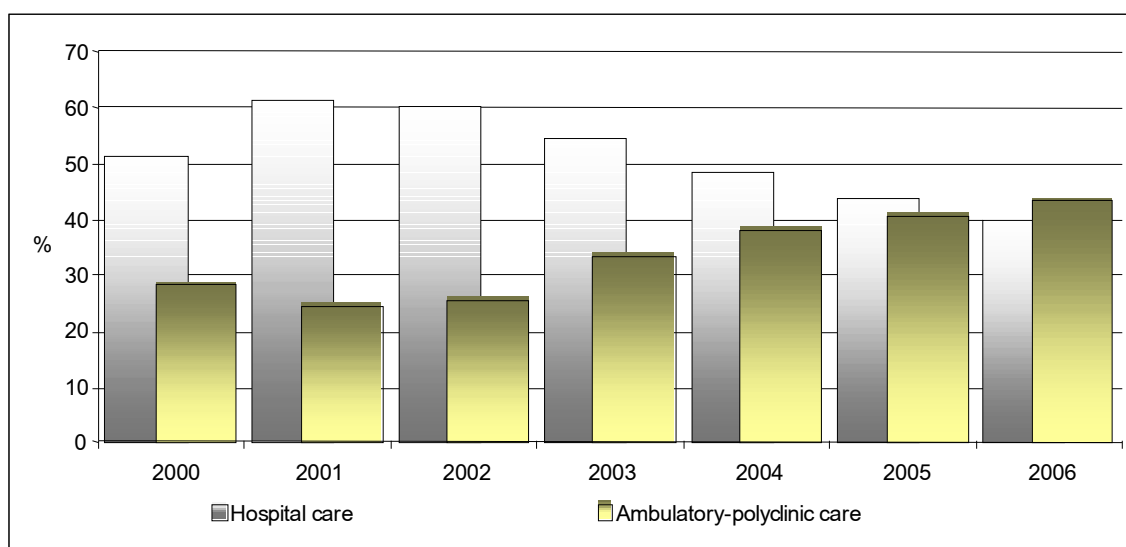
The priorities of health care in the Republic of Armenia are programmes for assuring the population's hygienic and epidemic security, enhancement of the role of ambulatory-polyclinic care, assuring maternal and infant health care, preventing diseases of special social significance, and meeting the needs of the vulnerable groups of the population.

#### *Primary (Ambulatory-Polyclinic) Care*

Enhancing the availability of health care services, through focusing on primary health care, is considered a priority in both the Poverty Reduction Strategy and the 2004-2006 medium-term expenditure framework for health care in the Republic of Armenia,

The major health care issues of the population are related to the primary level of health care. For this reason, the 2004-2006 medium-term expenditure framework provides for the development of primary health care and of its most important unit - ambulatory-polyclinic care - as a vital priority of the health care system. The 2004-2006 medium-term expenditure framework stipulates increases in the share of primary health care allocations within total health expenditures.

**Chart 8.5 Financing of Ambulatory and Hospital Care (Percent of Total Expenditures in Health Care)**



As a share of total health expenditure, the share of primary (ambulatory-polyclinic) care is expected to increase. Introduction of the system of family doctors should be continued and expanded throughout the territory of Armenia. In improving primary health care services, there is also a need to increase the accessibility of diagnostic services, through state orders for costly diagnostic examinations in specialised out-of-hospital diagnostic centres.

#### *Maternal and Infant Health Care*

Focusing adequate attention on maternal and infant health care, including reproductive health issues, is of fundamental importance in improving the health status of the population. For this purpose, there is a need to re-establish the priority of maternal and infant health issues at the national level, by assuring continuous care for pregnant women, feeding mothers and children of 0 to 5 years of age, implementing food-supply programmes, encouraging breast-feeding, improving pre-natal care and diagnosis, and providing high-quality peri-natal care. For solution of these problems, as well as to achieve the Millennium Objectives proclaimed by the UN concerning maternal and infant mortality, it is important to improve the quality of obstetric-gynaecological care and to introduce modern technologies of peri-natal care.

Within the framework of the maternal and infant health care programme, there will be substantial increases in public expenditure in obstetric-gynaecological care at both hospital and ambulatory-polyclinic levels. In particular, per patient expenditures in obstetric-gynaecological care will be increased within ambulatory-polyclinic care spending.

#### *Assuring Hygienic and Epidemic Security*

Assuring the hygienic and epidemic security of the population is a very important public issue and is guaranteed by the ROA Law “On Assuring Sanitary and Hygienic Security of the Population of the Republic of Armenia”. Ensuring effective hygienic and anti-epidemic control is of vital importance for the social-economic development of the country and for preservation of the population’s health status.

To assure the population’s hygienic and epidemic security, the framework stipulates for the establishment of hygienic and anti-epidemic control in the country, taking actions aimed at preservation of the population’ health status, prevention of infectious and mass non-infectious diseases, and development of the social health care system.

#### *Prevention of Contagious Diseases and HIV/AIDS*

There is a need to improve the efficiency of prevention, early detection of, and final recovery from infectious diseases, including tuberculosis, venereal infections and AIDS.

Assuring Provision of Medical Care to Vulnerable Groups and to Those Included in Separate (Special) Groups

The framework aims to enhance the availability of medical care to vulnerable groups of the population and to those included in separate (special) groups. It is planned to increase the number of people from vulnerable groups in the total number of beneficiaries of medical care, and to make an additional 600,000 people eligible for free health care (the state order framework). The definition of vulnerable and separate (special) groups includes not only persons as determined by the laws of the Republic of Armenia (the disabled, participants of the Patriotic War etc), but also those receiving poverty (family) benefits. The Ministry of Health will clarify and approve the rules for arranging provision of medical care to vulnerable groups of the population and to those included in separate (special) groups.

The framework provides for the implementation of a broad range of preventive, diagnostic and medical care for all major groups of diseases, in all units of the health care system, without any limitation in the list of specialists, in the frequency of visits and in laboratory-instrumental diagnostic examinations.

Expenditures in Hospital Care

Funds allocated to programmes such as “Tuberculosis Treatment”, “Treatment of Intestinal and Other Infectious Diseases”, as well as “Treatment of Sexually Transmitted Diseases”, will each be increased by 30% in 2004. Allocation of funds to programmes such as “Obstetric-Gynaecological Care” and “Medical Care of Children under 7” will be increased by 20% (see detail in the table below).

**Table 8.1. Financing of Hospital Care for 2003-2006, by Programme (Million Drams)**

Financed Programs	2003 Planned	2004 Forecast.	Change, %	Difference	2005 Forecast	Change, %	Difference	2006 Planned	Change, %	Difference
1	2	3	(3/2)	(3-2)	4	(4/3)	(4-3)	5	(5/4)	(5-4)
<b>1. Hospital care, Including</b>	<b>11 485.5</b>	<b>12 087.0</b>	<b>5.2</b>	<b>601.5</b>	<b>13 500.0</b>	<b>11.7</b>	<b>1 413.20</b>	<b>14 300.0</b>	<b>5.9</b>	<b>800.0</b>
1.1. Tuberculosis treatment	548.3	712.8	30.0	164.5	800.0	12.2	87.2	848.0	6.0	48.0
1.2. Treatment of intestinal and other infectious diseases	367.9	478.3	30.0	110.4	534.0	11.6	55.7	566.0	6.0	32.0
1.3. Treatment of sexually transmitted diseases	48.1	62.5	30.0	14.4	70.0	12.0	7.5	74.0	5.7	4.0
1.4. Treatment and care of mental patients	1 035.4	1 130.0	9.1	94.6	1 260.0	11.5	130.0	1 335.0	6.0	75.0
1.5. Emergency medical aid	960.0	1 050.0	9.4	90.0	1 172.0	11.6	122.0	1 242.3	6.0	70.3
1.6. Medical care to neurological patients	55.4	60.5	9.2	5.1	67.5	11.6	7.0	71.5	5.9	4.0
1.7. Hemo- dialysis procedure	432.7	472.5	9.2	39.8	527.5	11.6	55.0	559.0	6.0	31.5
1.8. Obstetric-gynaecological care	1 309.1	1 571.0	20.0	261.9	1 754.0	11.6	183.0	1 861.7	6.1	107.7

## 2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

1.9. Urgent medical care	2 383.0	2 601.0	9.1	218.0	2 903.0	11.6	302.0	3 070.0	5.8	167.0
1.10. Medical care to socially vulnerable groups and to those included in special groups	2 290.7	2 500.0	9.1	209.3	2 794.7	11.8	294.7	2 960.0	5.9	165.3
1.11. Medical care of children under 7	1 143.5	1 370.0	19.8	226.5	1 580.0	15.3	210.0	1 673.0	5.9	93.0
1.12. Acquisition of medical-social rehabilitation and expertise examination services of ability to work	30.6	33.4	9.1	2.8	37.3	11.7	3.9	39.5	5.9	2.2
1.13. Acquisition of mental health rehabilitation services	40.3	45.0	11.7	4.7	50.0	11.1	5.0	53.0	6.0	3.0
1.14. Centralised acquisition of medicines, vaccines and appliances	840.4	0.0	-100.0	-840.4	0.0	-	0.0	0.0	-	0.0

### *Expenditure on Primary Health Care*

The higher level of expenditure is mainly driven by the increase in prices of ambulatory-polyclinic visits and examinations.

The average price of one ambulatory-polyclinic visit will be 900 drams in 2004, in comparison to 450 drams in 2003. This represents an increase of 100%, which is mainly due to the increase in salaries of medical staff, and by increased expenditures on medicines. The primary unit will receive 3.1 billion drams for spending on medicines, of which 0.6 billion will be spent on first aid and diagnostic medicines, and the other 2.5 billion will support the provision of medicines to those patients entitled to privileged terms. Expenditure for the provision of medicines will be distributed across sub-sectors in accordance with their priority. The breakdown of expenditure by sub-sectors is shown in the table below:

**Table 8.2. Financing of Primary Health Care for 2003-2006, by Programme (Million Drams)**

Financed Programmes	2003 Planned	2004 Forecast.	Change, %	Difference	2005 Forecast	Change, %	Difference	2006 Planned	Change, %	Difference
1	2	3	(3/2)	(3-2)	4	(4/3)	(4-3)	5	(5/4)	(5-4)
<b>2. Ambulatory-polyclinic care, including</b>	<b>7 021.3</b>	<b>9 500.0</b>	<b>35.3</b>	<b>2 478.7</b>	<b>12 467.0</b>	<b>31.2</b>	<b>2 967.0</b>	<b>15 407.0</b>	<b>23.6</b>	<b>2 940.0</b>
2.1. Primary health care of persons at age of 15 and higher	1 955.6	4 106.7	110.0	2 151.2	5 338.8	30.0	1 232.0	6 646.8	24.5	1 308.0
2.2. Primary health care of children under 15	1 391.0	3 482.5	150.4	2 091.5	4 796.3	37.7	1 313.8	6 004.3	25.2	1 208.0
2.3 Clinical care	371.5	743.1	100.0	371.5	966.0	30.0	222.9	1 202.7	24.5	236.7
2.4. Obstetric-gynaecological care	283.2	566.3	100.0	283.2	764.5	35.0	198.2	951.8	24.5	187.3
2.5. Centralised acquisition of medicines, vaccines and appliances	3 020.0	601.4	-80.1	-2 418.6	601.4	0.0	0.0	601.4	0.0	0.0

### **ENHANCEMENT OF RESOURCE EFFICIENCY**

Optimisation and management reforms will be the main mechanisms for enhancing efficiency. While significant optimisation reforms have already been undertaken, they are still not sufficient. Optimisation will be continued, especially in the sphere of functional

management, over 2004-2006. Separate projects with external financing will be implemented for that purpose.

**EXPENDITURE DRIVERS FOR 2004-2006 MTEF PERIOD**

Public expenditure on health care will increase by 3,913.9 million drams in 2004. Based on the public policy and basic priorities of the sector, 63.3% of that amount – around 2,478.7 million drams – will be directed to primary health care, comprising 38.1% of total health care expenditure.

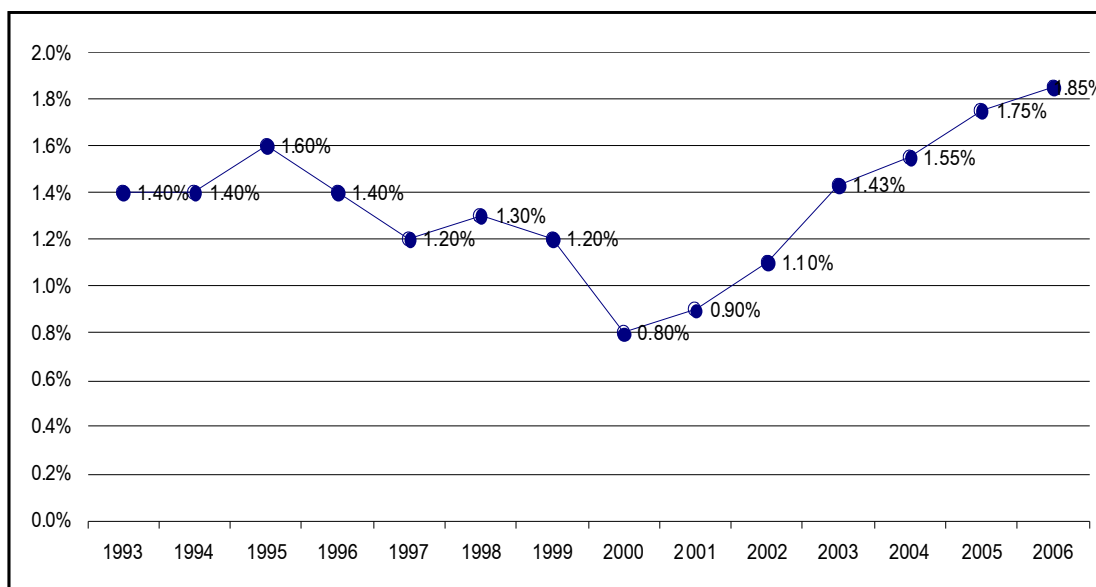
Around 10.6% of the increase, or around 415.4 million drams, will be directed to assuring the sanitary-hygienic security of the population. Public expenditures on this programme will increase by 71.1% in 2004.

Expenditure on hospital care will increase by 461.5 million drams and will comprise 11.8% of the total increase in health expenditure.

**PLANNED EXPENDITURES**

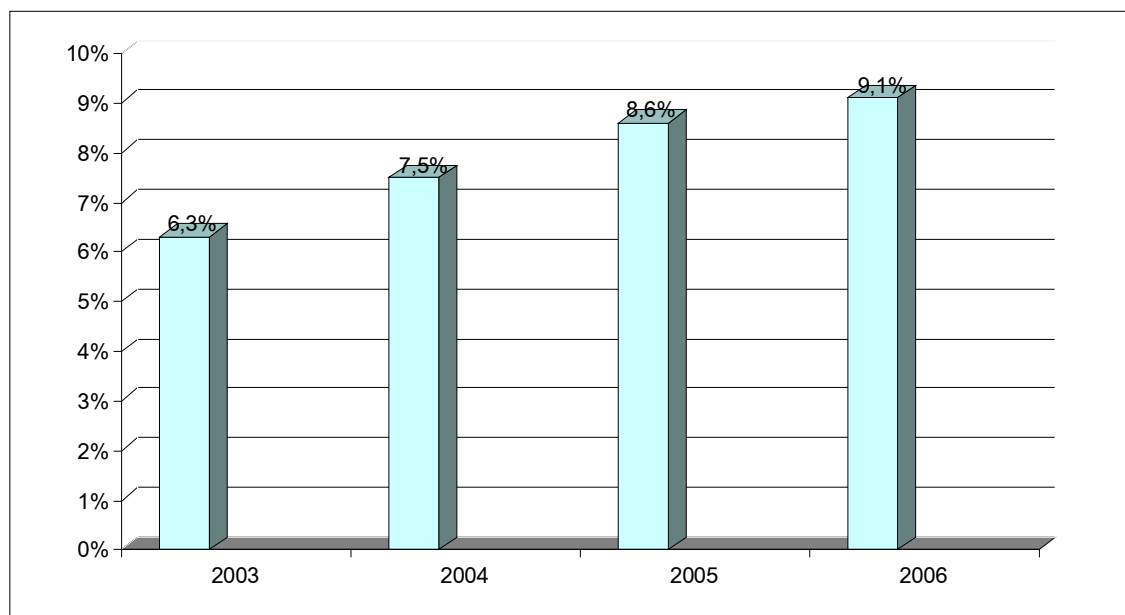
The share of public expenditure provided for the health care system of the Republic of Armenia in the medium-term expenditure framework will increase over 2004-2006 as a percentage of GDP, as presented in the chart below.

**Chart 8.6 Level of Public Expenditure in Health Care (Percent of GDP)**



The share of public expenditure provided for the health care system of the Republic of Armenia in the 2004-2006 medium-term expenditure framework will also increase as a proportion of total public expenditure, as presented in the chart below.

**Chart 8.7. Share of Health Expenditure within Total Public Expenditure (Percent)**

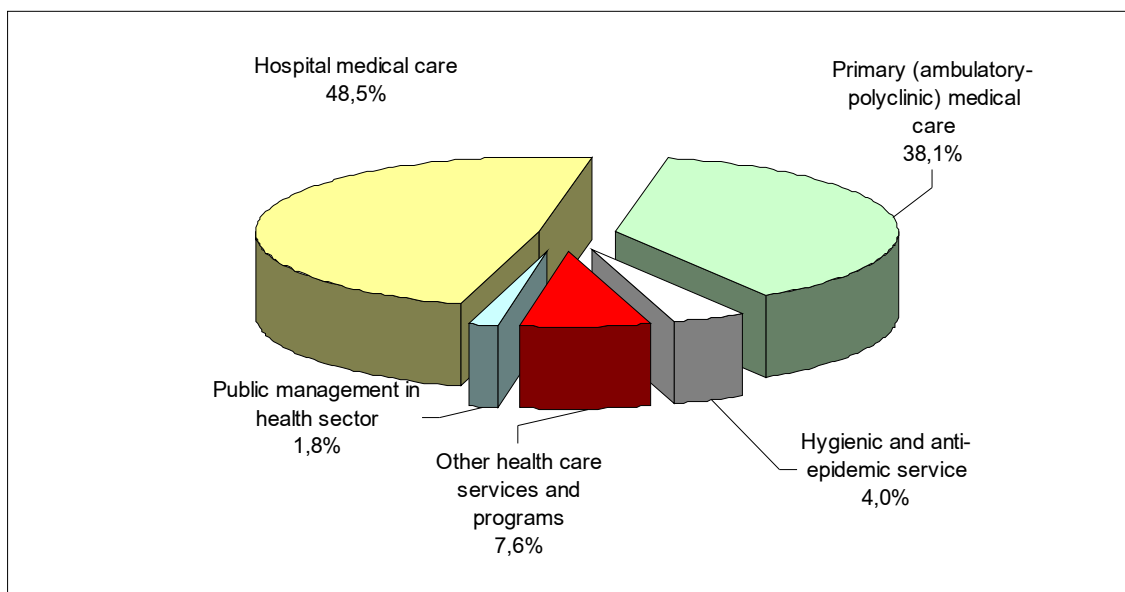


The increase in the budget allocations will be, in particular, directed to the realisation of the objectives determined by inter-sectoral and intra-sectoral programmatic priorities.

A basic provision of the medium-term expenditure framework is the enhancement of the availability of medical services for the poorest and the most vulnerable groups of the population, by focusing on improvement of the provision of medical services to the population.

Expenditures provided for health care (including expenditures on maintenance of administrative personnel, capital repair of health care institutions, capital construction, participation of the Government in the credit project, and lending programmes) in the 2004-2006 medium-term expenditure framework provides for the allocation of 24,927.9 million drams in 2004, 30,785.0 million drams in 2005, and 35,528.9 million drams in 2006. The increase in expenditure, as compared with the previous year, will be 18.6% in 2004, 23.5% in 2005, and 15.4% in 2006.

**Chart 8.8. Structure of Expenditures in Health Care, by Subgroups (Percent)**

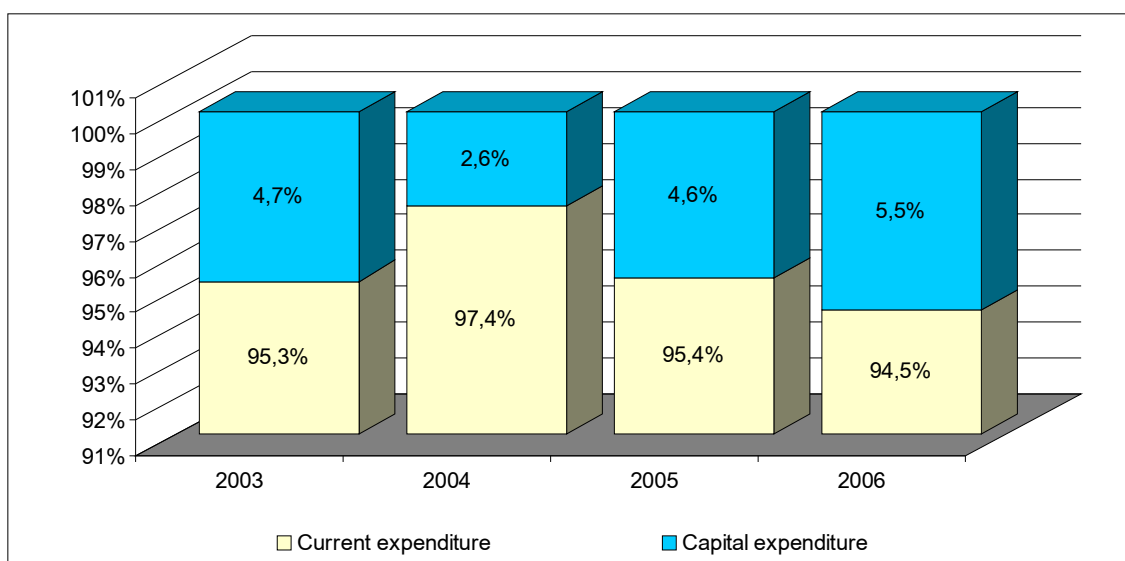


The allocations in 2004 will be directed to:

- (i) Hospital care – 12,087 million drams, or 48.5% of the total expenditure in health care;
- (ii) Primary (ambulatory-polyclinic) care – 9,500.0 million drams, or 38.1% of the total expenditure in health care;
- (iii) Hygienic and anti-epidemic service – 1,000.0 million drams, or 4% of the total expenditure in health care;
- (iv) Other health care services and programmes, of which 1,261.0 million drams or 5% of the total health expenditure is for current expenditures and 638.2 million drams, or 2.6% of total health expenditure is for capital expenditures.

Current and capital spending within total health expenditure is presented below.

**Chart 8.9. Public Expenditure in Health Care, by Economic Classification**





**Table 8.3. Public Expenditure in Health Care, by Functional and Economic Classification**

Subgroup Title	2002 <i>Actual</i>		2003 <i>Budget</i>		2004 <i>Forecast</i>		Percentage change compared with previous year	2005 <i>Forecast</i>		Percentage change compared with previous year	2006 <i>Forecast</i>		Percentage change compared with previous year
	Current	Capital	Current	Capital	Current	Capital		Current	Capital		Current	Capital	
05.01. Public administration in health care	77	0	233.2		441.7		89.4	469.8		6.4	495.2		5.4
<i>Percentage share within total expenditure in the sector</i>	<i>0.5</i>		<i>1.1</i>		<i>1.8</i>			<i>1.5</i>			<i>1.4</i>		
05.02. Hospital care	9037	84	11485.5	140.0	12087		4.0	13500		11.7	14300		5.9
<i>Percentage share within total expenditure in the sector</i>	<i>56.5</i>	<i>0.5</i>	<i>54.7</i>	<i>0.7</i>	<i>48.5</i>			<i>43.9</i>			<i>40.2</i>		
05.03. Primary health care	3380		7021.3		9500.0		35.3	12467		31.2	15407		23.6
<i>Percentage share within total expenditure in the sector</i>	<i>21.1</i>		<i>33.4</i>		<i>38.1</i>			<i>40.5</i>			<i>43.4</i>		
<i>Including acquisition of medicines</i>			3020.0		601.4			601.4			601.4		
05.04. Hygienic and anti-epidemic service	807	0	584.6		1000.0		71.1	1440.0		44.0	2000.0		38.9
<i>Percentage share within total expenditure in the sector</i>	<i>5.0</i>		<i>2.8</i>		<i>4.0</i>			<i>4.7</i>			<i>5.6</i>		
05.05. Other health care services and programs	1718	880	703.2	846.2	1261.0	638.2	22.6	1490.5	1417.7	53.1	1386.4	1940.3	14.4
<i>Percentage share within total expenditure in the sector</i>	<i>10.7</i>	<i>5.5</i>	<i>3.3</i>	<i>4.0</i>	<i>5.0</i>	<i>2.6</i>		<i>4.8</i>	<i>4.6</i>		<i>3.9</i>	<i>5.5</i>	
<i>Including projects implemented through external financing</i>	<i>218.2</i>	<i>879.7</i>	<i>242.0</i>	<i>346.2</i>	<i>401.5</i>	<i>40.7</i>		<i>566.6</i>	<i>740.3</i>		<i>397.5</i>	<i>892.8</i>	
<b>Total spending, by expenditure categories</b>	<b>15019</b>	<b>963</b>	<b>20027.8</b>	<b>986.2</b>	<b>24289.7</b>	<b>638.2</b>		<b>29367.3</b>	<b>1417.7</b>		<b>33588.6</b>	<b>1940.3</b>	
<b>Total expenditure</b>	<b>15982.2</b>		<b>21014.0</b>		<b>24927.9</b>		18.6	<b>30785.0</b>		23.5	<b>35528.9</b>		15.4

### Hospital Care

The proposed allocation for hospital care is 12,087.0 million drams in 2004, an increase of 4%, or 461.5 million drams, as compared with the 11,625.5 million drams in 2003. Allocations in 2005 will be 13,500.0 million drams, or 11.7% more than 2004. The absolute amount of the increase will be 1,413.0 million drams. However, expenditure on hospitals as a percentage of total health expenditure will decline over 2005-2006, mainly due to the reduction in the average treatment period. The share of hospital care spending within total health expenditure will decline from 54.7% in 2003 to 40.2% in 2006.

The price of hospital care is expected to increase by 14% in 2004, from 7,300.0 in 2003 to 8,300.0 drams in 2004. This will enable increases in salaries and compulsory social payments by about 12%, as well as a 28% increase in medicine and laboratory diagnostic spending. The daily average price will show an increasing trend and reach 9,300.0 drams in 2005 and 9,850 drams in 2006.

Primary (Ambulatory-Polyclinic) Care

This area, as a priority, will attract increases in public expenditure.

The proposed allocation to primary (ambulatory-polyclinic) care is 9,500.0 million drams in 2004. This is an increase of 35.3%, or 24,78.7 million drams, as compared with the 7,021.3 million drams in 2003. Allocations for 2005 will be 12,467.0 million drams, or a 31.2% increase, and for 2006 they will be 15,407.0 million drams, or a 23.6% increase. The share of allocations to this subgroup within total health expenditure will be 33.4% in 2003, 38.1% in 2004, 40.5% in 2005, and 43.4% in 2006.

“Hygienic and Anti-Epidemic Service” Subgroup

The framework stipulates for assuring the sanitary and anti-epidemic security of the population, conducting expert examinations for preservation of the population’s health, as well as explorations and laboratory and instrumental research. The hygienic and anti-epidemic service is to arrange necessary actions to be taken by all enterprises, institutions and organisations operating in the territory of Armenia (irrespective of their type of ownership) for assuring sanitary and anti-epidemic security, as well as to prevent the influence of harmful and hazardous external factors on the population’s health status.

Planned expenditure in the “Hygienic and Anti-Epidemic Service” subgroup is 1,000.0 million drams in 2004. This includes 900.0 million drams for the “Subsidising Hygienic Anti-Epidemic Service” programme, which is 73% more than the previous year expenditure of 520.1 million drams; and 100.0 million drams in the “State Order for Hygienic Anti-Epidemic Service” programme, which is 54.8% more than the previous year’s expenditure of 64.6 million drams. These spending increases are mainly driven by the growth of salaries. The proposed average monthly salary for these programmes is 14,841 drams in 2004 (an increase of 65% or 8,487 drams from the 2001 level), 20,680 drams in 2005, and 27,780 drams in 2006.

The framework provides for conducting anti-epidemic examinations at the sources of infectious diseases, monitoring implementation of the population’s immunisation, engaging in viral, sanitary-chemical research, preventative sanitary monitoring, the hygienic examination of projects, and the use of buildings that are in the process of construction or reconstruction.

Other Health Care Services and Programmes

Within this subgroup, the framework stipulates for:

- (i) Arrangement and implementation of works for preventing especially hazardous infections;

- (ii) Conduction of forensic expert examinations, gene specification, investigations through the system of Internal Affairs;
- (iii) Implementation of activities for HIV/AIDS prevention, monitoring of risk groups, and conduction of examinations;
- (iv) Dissection of children's corpses, specification of causes of death;
- (v) Ambulatory-polyclinic monitoring, prevention of and recovery from occupational diseases;
- (vi) Inventory and distribution of medications, medical equipment, and appliances received through humanitarian aid.

The proposed allocation to the "State Order for Costly Diagnostic Examinations" programme will be 60.0 million drams (an increase of 50% from 2003), to be channelled to the conduction of free diagnostic examinations by specific and unique medical equipment and technologies (nuclear-magnetic tomography, computer tomography, coronography, hormonal examinations etc).

The proposed allocation to the "Travel Expenses for Patients Referred for Treatment Outside the Country" programme will be 20.0 million drams. Under the programme, an annual average of 150 to 200 patients, whose diagnosis cannot be made within the country, are referred with an accompanying person to Moscow or CIS countries for diagnosis or treatment. Per-patient travelling expenses amount to around 130.0 to 140.0 thousand drams.

The proposed allocation to the "State Order for Other Medical Services" programme will be 350.0 million drams (an increase of 73.8% from 2003). Through this programme, the following activities will be implemented:

- (i) Collection and distribution of blood, provision of blood and its constituents to medical-preventive institutions, provision of anti-rhesus immunoglobulin to maternity hospitals, ambulatory examination and treatment of patients with malignant blood diseases under clinical monitoring;
- (ii) Monitoring of patients with sexually transmitted diseases, of infection sources and persons contacting with them, of the "risk group" of prostitutes and vagrants,
- (iii) Early detection, diagnosis, registration and clinical monitoring of neoplasm;
- (iv) Continuous monitoring of patients with chronic tubercular patients;
- (v) Production of orthetic devices and corsets;
- (vi) Implementation of the plan for the population's radiation security, clinical monitoring of persons radiated due to the Chernobyl catastrophe.

*Projects Implemented through External Financing*

Implementation of the World Bank financed “Optimisation of the Health Care System” project has been envisaged for the planned period.

The project aims to improving the quality and availability of medical care through optimisation of the health care system so as to enhance its efficiency. The focus of the project is as follows:

- (i) Optimisation of the hospital system, improvement, optimisation and restructuring of their functional administration,
- (ii) Reconstruction of ambulatories in regions of the Republic of Armenia.

Among the tasks for the coming years are implementation of plans for designing ambulatories, preparation of a design model of the optimisation of health care institutions, retraining of family doctors, and provision of advisory services.

Financing of the project (without Government’s counterpart funding) will be 401.5 million drams in 2004, 1,270.7 million drams in 2005, and 1,272.2 million drams in 2006.

In addition to the above-mentioned project, health care activities will also be implemented under the second credit project of the Armenian Social Investment Fund. In particular, this project stipulates for renovation of the premises of health care institutions in a number of communities, as well as for the acquisition of property for them. Financing of the project (without Government’s counterpart funding) will be 40.7 million drams in 2004, 36.1 million drams in 2005, and 18.2 million drams in 2006.

**Table 8.4. Public Expenditure in Health Care by Implementing Agencies (Million Drams)**

Title of public governance body	2004		2005		2006	
	Current expenditure	Capital expenditure	Current expenditure	Capital expenditure	Current expenditure	Capital expenditure
Government’s Staff	0.0	40.7	0.0	36.1	0.0	18.2
Ministry of Social Security	45.0	0.0	50.0	0.0	53.0	0.0
Ministry of Health	24 244.7	597.5	29 317.3	1 381.6	33 535.6	1 922.1
<b>Total</b>	<b>24 289.7</b>	<b>638.2</b>	<b>29 367.3</b>	<b>1 417.7</b>	<b>33 588.6</b>	<b>1 940.3</b>

## CHAPTER 9 SOCIAL INSURANCE AND SOCIAL SECURITY

The proposed actions in the social sector for the period of 2004-2006 will be aimed at solving the fundamental and priority tasks of the population’s social security policy relating to labour, employment, public pension security, social assistance, family, social protection of the disabled and the old, improvement of legislation and assuring its execution, as well as the introduction of the individual coding system.

The 2004-2006 medium-term expenditure framework for social insurance and social security in the Republic of Armenia has been developed on the basis of the Constitution of the Republic of Armenia, on the Poverty Reduction Strategy Paper, on the Action Plan of the ROA Government, as well as on the provisions of the ROA Government's Decrees relating to the social sector.

### **SITUATIONAL OVERVIEW**

In Armenia, social security has been seen as an important and priority sector, and the state has been facing the basic problem of developing the system of social security, of enhancing its effectiveness and efficiency in poverty reduction. There have been positive developments in the social security system in recent years. Expenditures on social security was significantly increased in 2003, approximately a 14% increase on their 2002 level.

**Table 9.1. Public Expenditure in Social Insurance and Social Security for 2002-2003**

<b>Indicators</b>	<b>2002</b>	<b>2003</b>
Social insurance and social security, million drams	27 029.9	30 822.9
<i>Percent of the State Budget</i>	<i>10.3</i>	<i>9.2</i>
<i>Percent of GDP</i>	<i>2.0</i>	<i>2.1</i>

#### *Pension Security*

The ROA Law “On Public Pensions”, came into force on April 10, 2003; and the ROA Law “On Individual Codes”, came into effect on January 1, 2003. To enable the more efficient use of the resources available for pensions, the Law “On Public Pensions” has differentiated between people receiving pensions from the State Budget and those receiving pensions from the compulsory social insurance budget.

Under the current system, financial resources collected by the public Social Security Fund are mainly directed to the payment of pensions. There is a need to improve the current system by managing the Social Security Fund in line with insurance principles and financial sustainability. Therefore, as prescribed by law, the system will gradually cease paying pensions that are not related to previous contributions. Social pensions, as well as compensation for length of the service, for which the state is obliged by Law to make social payments, will be financed from the State Budget. Financing of that item for 2003 is equal to 2.0 billion drams.

The ROA Law “On Public Pensions” stipulates for certification of jobs entitled to privileged pensions, as the principles for formation of the present list of privileged jobs need to be reviewed. The current principles create incentives for employers to increase the number of workplaces entitled to such pensions. As a result of changes, earlier

payments of pensions to certain categories of employees will not be made at the expense of other employees, but at the expense of the employer utilising the labour force in such conditions (especially heavy, especially hazardous, heavy, hazardous) and thus making profit through that labour.

The ROA Law “On Public Pensions” makes only civil aviation employees eligible for new long-service pensions. The Law has limited the right of early retirement of certain categories of employees involved in education and culture. In counting the years of work to assess their eligibility for early payment of pensions, the number of years worked prior to the Government’s finalisation of the lists will be considered. Following that, those persons will be assigned partial pension until reaching the pension age. The transition period will last for 15 to 20 years, and the rights of people, entitled to privileged pension in accordance with the acting system, will be in no means infringed.

It is planned to make changes to the ROA Law on “Compulsory Social Insurance Payments” so as to enable owners of agricultural land, as well as individuals to make optional social payments to the system of compulsory social insurance in periods of study or employer non-payment, in order to receive pension from that system in the future. The Law will also define the annual size of social insurance payments necessary for different lengths of service; then mechanisms for making and accounting for those payments will be developed and approved by Government Decree.

The ROA Law “On Public Pensions” has separated the concepts of base pension and principal pension, so that the latter is not related to the pension provided by the ROA Law “On Social Security of Military Personnel and Their Family Members”, and that determination of its size and possible future changes have no influence on the size of pension of the military personnel. Since these pensions are about 6 times higher than the average pension provided by the ROA Law “On Pension Security of Citizens of the Republic of Armenia”, the Government will maintain the present level of pension for military personnel, while pursuing a policy of gradually increasing pensions for other citizens, so as to reduce the differential between the two.

A new indicator – pensioner’s personal coefficient – has been introduced, which will adjust pensions for incomplete length of service, thereby encouraging long-term payments to the system. The coefficient will enable differentiation in the size of pensions, depending on how long the pensioner made contributions.

#### Public Benefits to Population

During 1999-2001, the level of poverty in the country has declined from 55.1% to 50.9%; the level of extreme poverty has declined from 22.9% to 16.0%, whereas resources

provided for the poverty family benefit in the State Budget have decreased by 39.7%, from 21,141 billion drams in 1999 to 12,750 billion drams in 2003. Since January 1, 2003, the additional payment for each child in a beneficiary family has increased from 1,500 to 2,000 drams.

*Benefits for Labour*

Since 2001, the programme “Benefit for Labour” has been implemented, with an annual allocation of 500 million drams in the 2001 and 2002 State Budgets. So far, 19,538 unemployed persons have participated in the works, and actual expenditure has totalled 657.5 million drams. The payment per man-day has amounted to 800 drams in 2001-2002, and 1,000 drams in 2003.

The main objective of public (relief) works is mitigating the tension in the labour market and providing temporary employment to job-seeking citizens, as well as enabling generation of additional income. It is planned to increase both the volume of implemented works and the number of involved citizens over 2004-2006, assuring a monthly income of around 26.0 thousand drams for full-timers, which will have a significant positive impact on the income of poor families.

*Public Assistance to Graduates of Children’s Tutorial Organisations*

There are currently eight public and three private children’s homes in the Republic, which arrange the full-time care and upbringing of around 1,200 children. In eight children’s homes under the Ministry of Social Security, the number of children has increased by 17% since 1998. The increase in the number of residents of children’s homes has been accompanied with an increasing share of those residents actually having parents. Since 1991, upon reaching adult age, 180 graduates have been discharged from children’s homes throughout the Republic. They are generally living in different dormitories, at random places and, as a rule, in extremely unfavourable conditions, with 30 graduates being homeless. Some 15% of the graduates are not registered in dormitories, 10% of them do not have a profession, and 90% do not have permanent employment and, therefore, any livelihood. Of 11 children’s homes operating in Armenia, three – children’s home “Zatik”, the children’s home of Gavar and the children’s home of Vanadzor - annually turn out around 30 graduates having reached the age of 18.

During the period of 1991-2001, problems such as registration, employment and housing of the graduates have not been approached in a systematic way, and assistance has varied between graduates – depending on whether he/she has applied for it.

For this reason, in 2002 the Ministry of Social Security has developed a program titled “State Assistance to Graduates of Children’s Tutorial Organisations of the Republic of Armenia”, which has been approved by the ROA Government.

*Free Provision and Repair of Prosthetic-Orthopaedic Appliances for the Disabled*

In accordance with the ROA Law “On Social Security of the Disabled in the Republic of Armenia”, the disabled are entitled to the free provision and repair of prosthetic-orthopaedic and rehabilitative devices.

The provision of these prosthetic devices will support the integration of the disabled into society. This gives the disabled the opportunity to work and partially care for themselves and their families, which is a key component of the Poverty Reduction Strategy.

Provision of prosthetic and rehabilitative devices has been implemented through two centres within the system of the Ministry of Social Security (“Prosthetic-Orthopaedic” CJSC and “Yerevan Centre of Prosthetic Provision and Personnel Training” CJSC, the latter also having a branch in Gyumri).

These two organisations produce and freely provide the disabled with upper and lower artificial limbs, orthotic devices, prosthetic and orthopaedic shoes, crutches, sticks, medical corsets and trusses, instep supporters etc. These organisations also arrange distribution of rehabilitative devices (wheel chairs, devices to assist walking, hearing aids and breast prosthetic devices) to the disabled. They also repair prosthetic appliances.

Around 4% of the 115,000 disabled persons in the Republic of Armenia need various types of prosthetic-orthopaedic and rehabilitative devices.

Every year, more than 5,500 persons receive prosthetic-orthopaedic assistance and rehabilitative devices.

*Boarding Houses*

Social servicing of the single elderly and of the disabled is implemented in two ways – inpatient and outpatient. Inpatient services are provided by two boarding houses, where 450 pensioners are taken care of. In addition, inpatient services are provided in Vardenis psychiatric boarding house (330 places) and in Gyumri boarding house for the elderly and disabled (150 places), subordinated to their respective regional government offices (Marzpetaran). Residents of boarding schools are under the complete care of the state. The monthly cost per person is around 42,000 drams. The waiting time for admission to boarding houses is currently 1 to 2 months; therefore, there is no need of adding inpatient places in those houses.

Around 1,100 single and disabled persons are provided with outpatient (at-home) services, and the monthly cost per person is around 3,000 drams, which is approximately



14 times cheaper than the cost in boarding houses. Outpatient services receive consists practical, legal, and psychological advice or consultation, first aid, and other services.

*Introduction of Individual Coding System, Establishment and Operation of Informational Database*

A new system of individualised reports presented by employers was introduced in January 1, 2003. The reports summarise data on pension social security payments made by, and in favour of, each insured person. This system will improve the accuracy of calculations of insurance length of service for each employee, simplify the process of pension assignment and assure direct correlation between the amount of assigned pensions and the amount of payments made. International experience shows that in all countries that have introduced individualised registration systems, the efficiency of collection of social insurance payments has been significantly improved.

**KEY OBJECTIVES OF SOCIAL INSURANCE AND SOCIAL SECURITY EXPENDITURES FOR 2004-2006**

The key objectives of social security for 2004-2006 are as follows:

- (i) An annual increase in pensions, so that by 2005-2006 the amount of the average pension will draw near to the per capita food poverty line. For this purpose, pensions should grow by the following ratios:

**Table 9.2. Annual Raise in Pensions**

<i>Indicators</i>	<i>2004 (drams)</i>	<i>2005 (drams)</i>	<i>2006 (drams)</i>
<i>Amount of principal pension</i>	3 500	4 000	5 000
<i>Value of one year of insurance length of service</i>	120	140	150
<i>Average pension</i>	7 660	8 860	10 200

**Table 9.3. Dynamics of the Number of Pensioners and the Average Pension**

<i>Indicators</i>	<i>2002 Actual</i>	<i>Average pension, drams</i>	<i>2003 Planned</i>	<i>Average pension, drams</i>	<i>2004 Forecast</i>	<i>Average pension, drams</i>	<i>2005 Forecast</i>	<i>Average pension, drams</i>	<i>2006 Forecast</i>	<i>Average pension, drams</i>
Number of pensioners (person), of which:	552 919	4 575	543 646	5 750	536 321	7 660	527 821	8 860	523 520	10 200
Labour pensioners, including	493 776	4 370	485 446	5 660	478 170	7 870	472 005	9 100	465 515	10 400
Age	319 697	4 470	311 066	5 800	303 896	7 800	297 896	9 100	293 754	10 470
Privileged	73 733	4 350	72 391	5 650	71 139	7 500	69 250	8 620	65 950	10 000
Long-years service	19 138	4 100	19 542	5 400	19 703	7 200	20 191	8 400	20 200	9 700
Disability	66 723	3 800	68 181	4 900	69 241	6 300	70 211	7 200	71 191	8 500
Social pensioners, including	47 094	3 400	46 675	3 500	46 325	3 500	46 000	4 000	45 675	5 000
Old age	9 426	3 200	8 720	3 400	8 238	3 500	8 185	4 000	7 662	5 000

## 2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

Indicators	2002 <i>Actual</i>	Average pension, drams	2003 <i>Planned</i>	Average pension, drams	2004 <i>Forecast</i>	Average pension, drams	2005 <i>Forecast</i>	Average pension, drams	2006 <i>Forecast</i>	Average pension, drams
<i>Disability</i>	28 138	2 900	28 678	3 000	28 950	3 500	29 190	4 000	29 613	5 000
<i>Pensioners related to military service</i>	12 049	9 470	11 525	9 519	11 826		12 123		12 330	

- (ii) An increase in expenditure on family poverty benefits, so as to increase the amount of the average benefit near to the per capita food poverty line, while maintaining the current number of beneficiary families. Other objectives are to improve the targeting and efficiency of family poverty benefits, establish the prerequisites for introducing a community-based system of social services, increase the frequency of home visits made by social workers to the families having applied to local offices of social services, and improve the professional qualities and skills of those workers, and disclosure of extremely poor families not included in the family benefit system.
- At the same time, a household survey will be conducted in the service territory of one of Gyumri's social service regional agencies that will pilot the new regression formula for family vulnerability assessment developed with World Bank assistance. This will compile a comparative summary of results of the changes in targeting through assessment of two major potential errors – the inclusion error (including well-off households into the system), and exclusion error (excluding poor households from the system). The size of these two errors will be assessed by making a name-by-name comparison of the list of families included, so as to estimate the social tension created by this formula.
- (iii) The programme “Benefits for Labour” will involve 22,000 man-days in 2004, 27,500 man-days in 2005, and 31,000 man-days in 2006. Due to the programme, unemployed job-seekers will, for a period of 3 to 6 months, earn a monthly income approximately equal to the average monthly income in the Republic. Public works, as determined by the ROA Government, will also be implemented through the programme.
- (iv) Assure realisation of the official norms of care in all boarding houses and children's homes, as well as the social protection of the 1991-2003 graduates of children's homes throughout the Republic of Armenia, and their integration into society, for which purpose the following actions will be taken:
- Housing of the graduates;
  - Professional orientation, training and retraining of the graduates;

- Assuring an income sufficient for meeting the basic needs of the graduates;
- Provision of free medical care to the graduates;
- Provision of legal assistance to the graduates.

### **MAIN EXPENDITURE PRIORITIES IN SOCIAL INSURANCE AND SOCIAL SECURITY FOR 2004-2006 MTEF PERIOD**

Taking into consideration the specific features of social insurance and social security, among the 2004-2006 medium-term expenditure programmes, priority will be given to the following directions: public social security programs, such as family benefits, pensions of military personnel and their family members, social pensions, public benefits to the population, provision of prosthetic-orthopaedic appliances to the disabled, and maintenance of boarding houses and children's homes.

Social insurance and social security expenditures in the 2003 State Budget comprised 12.9% of total expenditure. They are expected to comprise 10.6% of total spending in 2004.

Priority programmes are focused on providing the population with public benefits and pensions, providing social assistance to the graduates of children's tutorial organisations, as prescribed by the ROA Laws "On Public Pension Security", "On Rights of Children", "On Social Protection of Children Deprived of Parental Care", "On Social Protection of the Disabled", as well as by the Poverty Reduction Strategy Paper and by respective Decrees of the ROA Government.

#### Pension Security

State Budget allocations to the ROA public fund of social insurance will increase by 14.9% in 2004, 4% in 2005, and 6.2% in 2006. This will amount to 13.2 billion drams, 13.8 billion drams and 14.6 billion drams, respectively. The increase in expenditures is largely driven by the increase in the number of pensioners to be financed from the State Budget, and the increase in the amount of the average monthly pension, as well as by the proposed 20% increase in 2004 in pensions of military personnel that have participated in military operations and of their family members.

**Table 9.4. State Budget Expenditures in Pension Security, 2002-2006 (Million Drams)**

Subgroup (programme)	2002 <i>Actual</i>	2003 <i>Planned</i>	% <i>Change</i>	2004 <i>Forecast</i>	% <i>Change</i>	2005 <i>Forecast</i>	% <i>Change</i>	2006 <i>Forecast</i>	% <i>Change</i>
1	2	3	(3/2)	4	(4/3)	5	(5/4)	6	(6/5)
06.02 Pension security <i>including</i>	7 888.3	11 528.8	46.1	13 246.7	14.9	13 774.7	4.0	14 629.1	6.2

2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

01. Pension security of the officers' personnel and their family members	5 234.0	6 712.9	28.3	7 612.9	13.4	7 953.5	4.5	8 613.2	8.3
02. Pension security of the ranks' personnel and their family members	2 607.8	2 773.3	6.3	2 859.2	3.1	2 859.2	0.0	2 859.2	0.0
03. Social pensions	0.0	2 000.0		2 731.5	36.6	2 917.9	6.8	3 111.4	6.6

*Public Benefits to the Population*

Expenditure on public benefits will increase by 24.8% in 2004, 25.0% in 2005, and 22.9% in 2006. This will amount to 17.0 billion drams, 21.3 billion drams and 26.1 billion drams, respectively. This increase in expenditure will be mainly aimed at increasing the per capita family poverty benefit near to the food poverty line, while maintaining the present number of beneficiary families and, at the same time, taking actions to enhancing the targeting, and the average monthly level, of benefits.

**Table 9.5. State Budget Expenditures in Benefits, 2002-2006 (Million Drams)**

Subgroup (programme)	2002 <i>Actual</i>	2003 <i>Planned</i>	% Change	2004 <i>Forecast</i>	% Change	2005 <i>Forecast</i>	% Change	2006 <i>Forecast</i>	% Change
1	2	3	(3/2)	4	(4/3)	5	(5/4)	6	(6/5)
<b>06.03. Public benefits to population</b>	15 762.7	13 629.1	-13.5	17 010.4	24.8	21 265.5	25.0	26 145.9	22.9
<i>Including</i>									
01. Family poverty benefits	14 850.2	12 745.2	-14.2	16 093.0	26.3	20 207.0	25.6	24 940.0	23.4
02. Annual benefits of people taking care of children under 2 and on partially paid leave	260.9	253.9	-2.7	253.9	0.0	253.9	0.0	253.9	0.0
03. Payments for postal delivery of benefits	151.7	130.0	-14.3	163.5	25.8	204.6	25.2	251.9	23.1
04. Benefits for labour	500.0	500.0	0.0	500.0	0.0	600.0	20.0	700.0	16.7

*Social Security Programmes*

Expenditures on social security programmes will be 2.7 billion drams in 2004, 2.4 billion drams in 2005, and 2.3 billion drams in 2006. This represents an increase of 22.0% in 2004, whereas in 2005 and 2006 expenditure will decrease by 11.2% and 0.9%, or by 298.1 million drams and 20.5 million drams, respectively.

Expenditure on priority programmes for 2004-2006 ("State Order for Procurement of Boarding House Services", "Free Provision and Repair of Prosthetic-Orthopaedic Appliances for the Disabled", "Public Assistance to Graduates of Children's Tutorial

Organisations”) will comprise the following shares of total spending in social security: 82.4% in 2004, 79.3% in 2005, and 78.6% in 2006.

*State Order for Procurement of Boarding House Services*

Due to the reduction in the number of beneficiaries, expenditure for 2004-2006 is proposed to decrease by 1.7%, 1.6%, and 1.7%, respectively, or by 21.7 million drams, 20.9 million drams, and 20.9 million drams, respectively.

At the same time, the monthly cost per person in Vardenis and Gyumri boarding houses, will increase by an average of 6.5%, so as to even out existing differences in the costs across institutions.

*Free Provision and Repair of Prosthetic-Orthopaedic Appliances for the Disabled*

Taking into consideration the increase in the number of persons needing prosthetic-orthopaedic appliances, as well as the need for paying arrears accumulated in previous years, budget allocations for 2004 are proposed to increase by 46.2%, or by 182.8 million drams. In 2005, these expenditures will decrease by 4.8%, or 28.0 drams and in 2006 the level of spending in this subgroup will remain the same.

*Public Assistance to Graduates of Children’s Tutorial Organisations*

The Poverty Reduction Strategy Paper of the Republic of Armenia provides for social protection guarantees for graduates of children’s homes.

Expenditure on this programme will increase by 67.8% or 135.5 million drams in 2004, in reflection of the increase in the number of graduates (to 155 graduates, including those of previous years). Expenditures will be reduced by 80.6%, or 270.2 million drams (30 graduates) in 2005; and by 16.7%, or by 10.8 million drams (25 graduates) in 2006.

**Table 9.6. Financing of Social Security Activities, 2002-2006**

Subgroup (program)	2002	2003	%	2004	%	2005	%	2006	%
	<i>Actual</i>	<i>Planned</i>	<i>Change</i>	<i>Forecast</i>	<i>Change</i>	<i>Forecast</i>	<i>Change</i>	<i>Forecast</i>	<i>Change</i>
1	2	3	(3/2)	4	(4/3)	5	(5/4)	6	(6/5)
<b>06.04. Social security actions, of which:</b>	<b>1 702.3</b>	<b>2 173.0</b>	<b>27.6</b>	<b>2 652.1</b>	<b>22.0</b>	<b>2 353.9</b>	<b>-11.2</b>	<b>2333.3</b>	<b>-0.9</b>
<i>Only in below-mentioned programmes, total</i>	<i>1 252.7</i>	<i>1 888.4</i>	<i>50.7</i>	<i>2 185.0</i>	<i>15.7</i>	<i>1 865.7</i>	<i>-14.6</i>	<i>1 833.9</i>	<i>-1.7</i>
04. Public assistance to graduates of children’s tutorial organizations	0.0	199.8		335.4	67.8	64.9	-80.6	54.1	-16.7
05. Free provision and repair of prosthetic-orthopedic appliances for the disabled	395.5	395.5	0.0	578.4	46.2	550.4	-4.8	550.3	0.0
06. State order for procurement of boarding house services	857.2	1 293.0	50.8	1 271.3	-1.7	1 250.4	-1.6	1 229.5	-1.7

**EXPENDITURE DRIVERS FOR 2004-2006 MTEF PERIOD**

The main directions of development in the social security system, as determined by the PRSP, have been reflected and highlighted in the ROA Government's Action Plan. In particular, these documents provide for an increase in pensions and family benefits (an annual increase in pensions and benefits so that by 2005-2006 the amount of the average pension draws near to the per capita food poverty line), reduction of the number of beneficiaries, improving the targeting of family benefits, increasing the consumption level of the poorest above the food poverty line – against a background of overall poverty reduction, and increasing the share of family benefit financing to 1.3% of GDP.

**Table 9.7. Family Benefits, 2002-2006 (PRSP Forecasts)**

Indicators	2004	2005	2006
Household size (persons)	3.571	3.571	3.571
Number of beneficiary families (thousand families)	139.0	139.0	135.8
Expenditures in poverty benefit, percent of GDP	1.0	1.1	1.3
Average annual amount of benefit (drams)	9648.6	12114.6	15302.1
Food poverty line, per capita (drams)	7826.6	8001.9	8206.8
Average annual amount of benefit, per capita (drams)	2702.3	3392.9	4285.6
<i>Percent of poverty ration line</i>	<i>34.5</i>	<i>42.4</i>	<i>52.2</i>

**PLANNED EXPENDITURES**

The priority, over the whole MTEF period, will be increasing public expenditure on social protection and enhancing the efficiency of this expenditure.

Forecasts of expenditure on social protection provided for in the 2004-2006 MTEF are presented in the table below.

**Table 9.8. Public Expenditure in Social Insurance and Social Security, 2004-2006**

Group 06	2004	2005	2006
	<i>Forecast</i>		
<b>Social insurance and social security (million drams)</b>	34 600.9	39 259.5	47 884.9
<i>Percent of the state budget</i>	<i>10.6</i>	<i>11.1</i>	<i>12.4</i>
<i>Percent of GDP</i>	<i>2.2</i>	<i>2.3</i>	<i>2.5</i>

**Table 9.9. State Budget Expenditures in Social Insurance and Social Security, 2002-2006**

**Box 9.1. Improvements of the Budgeting System of the Ministry of Social Security**

A pilot project in programme budgeting was launched in the Ministry of Social Security (MOSS) in April 2002. MOSS has been working to redefine its programmes to focus on the services the Ministry delivers, in line with the principles of programme or performance based budgeting. The aim of this work is to provide MOSS with better information to support both its internal strategic planning and its MTEF and Budget submissions. The redefined programmes show more clearly what MOSS is providing in return for the funding received and the implications of changes in funding for the services of the Ministry. The table below shows the old and redesigned MOSS programme structure.

MOSS current and redefined programme structures for the 2004 budget are presented below:

<b>Present Classification</b>									
1.	Maintenance of institutions of additional education								
2.	Purchase of psychological recovery services								
3.	Maintenance of central apparatus								
4.	PIN system introduction, database creation and maintenance								
5.	Creation, automatisisation and maintenance of database, printing of pro formas of family benefits system								
6.	Humanitarian aid (food) distribution costs								
7.	Assistance to graduates of orphanages								
8.	Provision and repair of prostheses for disabled people								
9.	Maintenance of boarding houses								
10.	Purchase of socio-medical recovery and disability testing services								
11.	Assistance to pensioners								
12.	Family benefits								
13.	Benefit for work								
14.	Transfers from orphanages								
<b>Redefined Programmes</b>									
1.	Ministry level policy, planning, support and monitoring								
2.	Elderly services								
3.	Disabled services								
4.	Regional Employment services								
5.	Employment and labour policy and monitoring								
6.	Social insurance and social protection policy monitoring and evaluation								
7.	Social assistance policy and monitoring								
8.	Families, women and children policy and monitoring								
9.	Elderly and disabled policy and monitoring								
10.	Families, women and children services								
11.	Methodology and training services								
12.	Humanitarian aid distribution program								
13.	Social assistance services								

The key principles on which these redesigned programmes are based on are as follows:

- each programme reflects an aggregation of similar services or goods that are supplied to external parties by the Ministry and by subordinate institutions that receive their funds through the Ministry's budget;
- the programmes aggregate the services supplied to a level that is useful budget appropriations but also useful for strategic planning and analysis by senior officials, the Government and the National Assembly;
- grouping similar or related goods/services, programmes can be more readily linked to Government's goals and downwards to the operational management and managerial responsibilities within the ministry.

There are a number of benefits in adopting the new programmes as they will:

- increase transparency by providing comprehensive information about what goods and services will be supplied by MOSS to whom, enabling Government and other stakeholders to see how budget funds will be spent;
- describe the planned quantity and, where appropriate, time frames for delivery of those services;
- the programmes as defined will provide a sound basis for monitoring and reporting actual vs. planned performance, both within MOSS and also to interested external stakeholders (e.g. Control Chamber); and
- the new programmes are aligned to the departments within the Ministry, thereby providing a better basis for internal accountability for performance.

The present programme classification has been used in the 2004 Budget and 2004-2006 MTEF. However, it is anticipated that, for future budgeting processes, the new programme classification will be used.

Subgroup (program)	2002	2003	%	2004	%	2005	%	2006	%
	Actual	Planned	Change	Forecast	Change	Forecast	Change	Forecast	Change
1	2	3	(3/2)	4	(4/3)	5	(5/4)	6	(6/5)

2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

Subgroup (program)	2002	2003	%	2004	%	2005	%	2006	%
	<i>Actual</i>	<i>Planned</i>	<i>Change</i>	<i>Forecast</i>	<i>Change</i>	<i>Forecast</i>	<i>Change</i>	<i>Forecast</i>	<i>Change</i>
<b>Social insurance and social security,</b>	<b>27 029.9</b>	<b>30 822.9</b>	<b>14.0</b>	<b>35 053.0</b>	<b>13.7</b>	<b>39 776.8</b>	<b>13.5</b>	<b>48 423.2</b>	<b>21.7</b>
<i>Including</i>									
06.01. Improvement of public administration in social insurance and social security	295.3	358.0	21.2	514.4	43.7	546.2	6.2	575.5	5.4
<i>Percentage share within total expenditure</i>	<i>1.1</i>	<i>1.2</i>		<i>1.5</i>		<i>1.4</i>		<i>1.2</i>	
06.02. Pension security	7 888.3	11 528.8	46.1	13 246.7	14.9	13 774.7	4.0	14 629.1	6.2





## **CHAPTER 10. CULTURE, YOUTH AFFAIRS, INFORMATION AND SPORT**

The 2004-2006 medium-term expenditure framework in culture of the Republic of Armenia has been developed on the basis of the Constitution of the Republic of Armenia and of the requirements of the ROA Law “On Basics of Legislation on Culture”.

### **SITUATIONAL OVERVIEW**

The main source of financing for culture is the State Budget of the Republic of Armenia. The budgetary allocation to culture over 2002-2003 has been channelled to 17 libraries (of which 10 are in the regions), 40 museums (of which 11 are in the regions), 5 cultural centres (of which 4 are in the regions), and 38 theatre-concert enterprises (of which 7 are in the regions), as well as to the annual financing of around 220 cultural events, 220 sports, and 55 youth activities.

Due to the 30% raise in wages of cultural employees in the 2003 State Budget, the average salary has been increased from 95,00 drams in 2002 to 12,300 drams in 2003.

Within the framework of the “Rehabilitation of Cultural Centres” programme financed by the “Lincy” foundation, renovation works of theatres, concert halls, and museums has been implemented, with some of them completed. In 2003, around 7,617.3 million drams have been planned for implementation of these works.

#### Libraries

In the formulation of a strategy for development of libraries, importance should be attached to the ROA Laws “On Libraries” and “On the Compulsory Copy of Documents”, as well as to other normative and legislative statements in relation to libraries.

Over the last ten years, the absence of a heating system in library buildings, combined with the reduction of resources allocated to the preservation and replenishment of library stocks, has resulted in the deterioration of library buildings and in the physical erosion of their book stocks, as well as in a smaller number of readers and in the downsizing of provided services. The building of the Musicology Library is in a damaged condition, which jeopardizes the very existence of this unique library and its collection.

While recognising the importance of decentralisation of cultural policy, its premature implementation, given the absence of legislative statements regulating libraries, has abruptly downsized library stocks, weakened the inter-relations between libraries, and made it impossible to collect administrative statistical data on library activities.

Resources allocated to libraries from the State Budget have been channelled to the maintenance of libraries and replenishment of the library stock.

The number of books contained in the stock of libraries under the Ministry of Culture and Youth Affairs totalled 8,084,045 in 2002, with a circulation of around 3,097,712 books. The libraries served 91,449 readers in 2002, as opposed to 89,823 readers in 2001. In addition to subsidies from the State Budget, libraries generated 127 million drams of extra-budgetary receipts in 2003, mainly through grant programmes.

Donations have been the main source for library stock replenishment in recent years. However, donations cannot permanently contribute to the planned replenishment of library stock, in order to pursue the tasks and objectives of libraries.

#### Museums

In the process of formulating a strategy for the development of museums, importance should be attached to the normative and legislative statements dealing with replenishment, inventory, and preservation of the museum stock, in accordance with the ROA Law “On Museums and Museum Stock of the Republic of Armenia”.

The museum sector is currently represented by artistic, historical, ethnographic, specialised, geographic, memorial, and reserve museums.

The stock of libraries under the Ministry of Culture and Youth Affairs has over two million items of cultural value, and their preservation has become the key priority. For the last ten years, resources allocated to maintenance of museums have been reduced, no repair works have been implemented, and the systems for maintaining a consistent temperature and humidity have not been operating at all. The absence of these systems is particularly damaging in Armenia’s climatic conditions, characterised by abrupt changes of temperature. Around 2% of the museum stock needs restoration, especially paintings, carpets, and decorative furniture. The problem has been complicated by the fact that there are currently no restoration studios and specialists in Armenia.

Since capital renovation of the museum buildings requires tremendous financial resources, the Ministry has been searching for other sources of financing.

The problem of capital renovation of museum buildings was partially abated by the repair of eight museum buildings within the framework of the “Rehabilitation of Cultural Centres” programme financed by the “Lincy” foundation. This solved the basic problem of museum stock preservation in these museums, due to the installation of modern heating and air-conditioning systems in the repositories and exhibits.

#### Arts (Theatre, Music, Dancing)

Theatres under the Ministry of Culture and Sports have staged 1,268 performances in 2001, and 1,214 performances in 2002, attended by an audience of 242,000 and 237,000

respectively. In addition, concert enterprises have organised 414 events in 2001, and 389 events in 2002, attended by an audience of 172,000 and 81,000 respectively.

During the year, theatres replenish their repertory by one or two, or at best three new and repeated performances, and concert enterprises are limited to one or two concert items. This results in reduction of the quantity of performances and concerts, and diminished audience interest.

In addition, four or five relatively expensive performances are annually staged through creative orders, at the expense of resources planned for cultural events (around 20,000 thousand drams annually).

The average cost of staging one performance is 3,500,000 drams, and the average cost of a new concert program is 3,000,000 drams.

Within the framework of the “Rehabilitation of Cultural Centres” programme, financed by the “Lincy” foundation, renovation works in the National Academic Opera and Ballet named after Al. Spendiaryan, in the State Russian Dramatic Theatre named after K. Stanislavski, in the Yerevan State Puppet Theatre named after H. Tumanyan, in the Gyumri State Dramatic Theatre named after V. Achemyan and in the Concert Hall “Aram Khachatryan”, as well as in the Chamber Music House named after Komitas are to be completed soon.

Allocations provided for cultural events are channelled to celebration of jubilees, arranging exhibitions stipulated by inter-state agreements, as well as to the implementation of the programme “Placing State Order in Theatre-Concert Enterprises”, and of other programmes.

### Cinematography

For preservation, propagation, and development of cinematography in the Republic of Armenia, importance should be attached to the respective legislative and legal statements. In 2002, the basic conceptual provisions of preservation, propagation, and development of cinematography in Armenia have been elaborated and approved by the ROA Government.

The absence of the necessary legislative framework, as well as of the creative, production and technical conditions for cinematography in the early 1990s resulted in a declining quantity of films produced in the Republic, in the reduction of screenings of Armenian films and of the audience, as well as in the elimination of the distribution (rental) system. At the moment, the “Hayfilm” studio named after Hamo Beknazaryan under the Ministry of Culture and Youth Affairs appears to be the only technical base for film production. Since 1975, no repair works have been implemented in the studio building. Over the last

ten years, the heating and temperature-humidity control systems have been completely destroyed, thus jeopardizing the further preservation of the film library.

#### *Protection of Historical-Cultural Monuments*

The protection of immovable historical-cultural monuments includes discovery of immovable items of historical-cultural value, their state registration, protection from damage, fortification, repair, restoration, purposeful utilisation, as well as the establishment of a scientific-informational database.

More than 30,000 monuments have so far been registered, validated, examined, and taken under state protection; 300 of them have been strengthened, and partially or completely restored. Most of them are churches and monastic complexes, which have been put under the disposition of the Holy Seat of Echmiadzin.

The primary task of the sector is to save historical-cultural monuments from destruction and complete elimination.

#### *Publishing Business*

The privatisation of the publishing business in the Republic has almost been completed. In recent years there has been improvements in publishing houses and in the quality of printing, but there is still a complete absence of a book-trading network. Privatised bookstores are mainly engaged in trading other products.

To support development of the publishing business, the Publishing Business Agency should assure regulation and co-ordination of economic activities in the sector, as well as implementation of a unified policy targeted at the development of the sector.

The Agency receives 250 to 300 claims annually from publishing houses and individual authors. Only 20% to 30% of submitted claims receive financing from the State Budget.

#### *Youth Affairs*

Functions of the state youth policy include establishment of the necessary conditions for upbringing, education, employment, private life, military service, leisure, health care and social protection of young people, universal development of their creative potential and their active participation in political, economical, and the social-cultural life of society.

In spite of the versatile works implemented in this sector in recent years, there are still a number of unsolved basic problems. The situation can be corrected only through developing and consistently implementing complex programmes.

Given these considerations, and based on the development priorities defined in the "Concept for Public Youth Policy", all of the planned youth policy activities have been included in this framework.

Those actions have been classified into certain priority sectors of youth policy, as follows:

- (i) Development of the administration system;
- (ii) Legal;
- (iii) Leisure, mental-physical and patriotic education;
- (iv) Mental-cultural;
- (v) Social-economical;
- (vi) Youth collaboration;
- (vii) Informational-analytical;
- (viii) Coordination of youth NGO activities;
- (ix) Scientific-educational.

In 2002, around seventy activities have been organised and implemented (as opposed to 54 in 2001). The 2002 activities include 57 programmatic activities, with the others targeted at supporting participation in international processes.

#### **MAIN EXPENDITURE PRIORITIES IN CULTURE FOR 2004-2006 MTEF PERIOD**

Priorities of the development policy in culture are as follows:

- (i) Support and stimulation of creative activities;
- (ii) Preservation of the cultural heritage;
- (iii) Dissemination of cultural values;
- (iv) Utilisation (reproduction and development) of society's creative potential;
- (v) Legal and economic regulation of cultural development.

#### **KEY OBJECTIVES OF EXPENDITURES ALLOCATED TO CULTURE FOR 2004-2006**

The 2004-2006 medium-term expenditure framework for culture will be targeted at assuring implementation of the objectives listed below.

##### Libraries

Priority objectives for libraries are the following:

- (i) Preservation and replenishment of library stock, restoration of the inter-library connections and of the sharing service;
- (ii) Introduction of informational technologies for the establishment of unified electronic book-stock catalogues and of national bibliographic computerised thesauruses.

##### Museums

Priority objectives in the sector of museums are as follows:

- (i) Replenishment and preservation of the museum stock, arranging and conducting exhibitions;
- (ii) Assuring public accessibility of the museum stock;
- (iii) The continued creation of the digital thesaurus of cultural values.

Arts (Theatre, Music, Dancing)

Priority objectives in the sector of arts are as follows:

- (i) Support and stimulation of creative activities;
- (ii) Development of the system for placing state creative orders and procurement of dramatic works;
- (iii) Subsidisation of touring and theatric festivals;
- (iv) Support and stimulation of theatric arts;
- (v) Adoption of legislative statements; in particular, of the ROA Law “On Theatre and Theatric Activities”.

Cultural Events

Priority objectives in the sector of cultural events are as follows:

- (i) Publicising Armenia’s cultural heritage;
- (ii) Preservation of the common cultural space;
- (iii) Encouraging young authors;
- (iv) Cultural dialogue.

Strengthening of the Armenia-European Community and Armenia-CIS links, as well as implementation of joint programmes and activities, has been an important focus of the country’s international cultural policy.

Cultural links of Armenia-Diaspora-Artzakh constitute a vital and indispensable part of international cultural collaboration, realised within the framework of the “One Nation – One Culture” festival. The festival has been aimed at strengthening and deepening Homeland-Diaspora links, as well as at supporting Armenian artists working in foreign countries.

Cinematography

Priority objectives in cinematography are as follows:

- (i) Production of Armenian (national) films;
- (ii) Preservation, propagation and development of cinematography;
- (iii) Development of film production in Armenia.

The National Assembly plans to debate the draft ROA Law “On State Support to Cinematography” in the fall of 2003. The draft law has also been submitted for expert examination to the European Community. It provides for the establishment of an

independent expert commission, comprising of producers and cinematography workers, which will competitively consider proposed film drafts.

For the 2004-2006 period, financing of film projects, competitively selected by the independent expert commission in accordance with law and with the best international practice, will be allocated only if film producers (counterpart producers) provide 30% of the final cost of the project, with the remaining 70% to be financed from the State Budget.

#### Protection of Historical-Cultural Monuments

Priority objectives in protection of historical-cultural monuments are as follows:

- (i) Discovery of valuable, immovable historical-cultural monuments, their state registration, and protection from damage;
- (ii) Establishment of a scientific-informational database;
- (iii) Fortification, repair, restoration, and purposeful utilisation of historical-cultural monuments.

#### Publishing Business

Priority objectives in the publishing business are as follows:

- (i) Arrangement of co-ordinated work with state and non-state enterprises in the sector, making the sector operate as a single system;
- (ii) Formation of the Pan-Armenian publishing space, active collaboration with the Diaspora;
- (iii) Distribution of books printed in the Republic of Armenia and propaganda of Armenian book culture abroad, gaining international book production and publishing agreements;
- (iv) Import of foreign publishing products into Armenia, stimulating book exchange activities, assuring free traffic of publications;
- (v) Supporting implementation of development programmes for the publishing business, through Armenia's participation in various cultural programmes and projects of the European Community;
- (vi) Engagement of Armenia, as well as of the Diaspora, in the "Book Cultural Pathways" programme of the European Community;
- (vii) Publication of an up-to-date catalogue of books published in Armenia;
- (viii) Implementation of electronic publishing programmes.

#### Youth Affairs

Priority objectives in youth affairs are as follows:



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- (i) Contribution to improvement of the mental-cultural and scientific level of the young people, arrangement of active and purposeful leisure;
- (ii) Examination of the present social-economic problems, and taking actions for their solution;
- (iii) Discovering and encouraging talented young people;
- (iv) Implementing programmes targeted at patriotic education of the youth and enhancement of their civil consciousness;
- (v) Activating and developing collaboration with international youth structures;
- (vi) Creating conditions for providing young people with necessary information.

### **EXPENDITURE DRIVERS FOR 2004-2006 MTEF PERIOD**

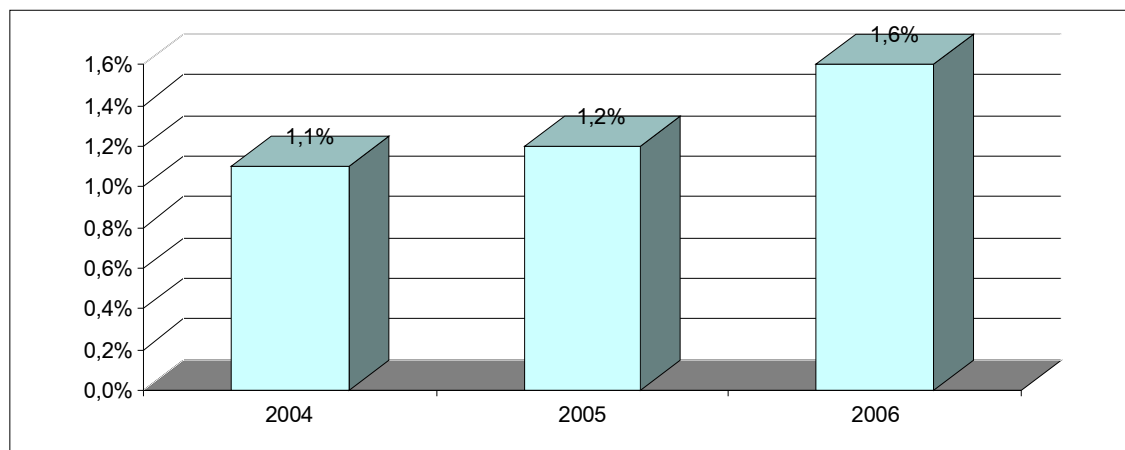
The main expenditure drivers for the MTEF period are as follows:

- (i) The increasing wages of employees of libraries, museums and other cultural and theatre-concert enterprises. These are expected to increase by 17% in 2004, 50% in 2005 and 19% in 2006, or by 204.4 million drams, 691.0 million drams, and 339.3 million drams, respectively. This increase in wages reflects an increase in the average salary of cultural employees from 12,300 drams in 2003 to 25,800 drams in 2006;
- (ii) Acquisition of necessary devices and appliances for preservation of the stock of libraries and museums, as well as of items of cultural value, installation of security systems, and establishment of computerised informational thesauruses of book-stock and cultural values;
- (iii) Implementation of a complex programme for the capital repair and restoration of cultural establishments.

### **PLANNED EXPENDITURES**

The planned share of public spending in culture, as stipulated by the medium-term expenditure framework for 2004-2006, will be 0.2% of GDP in 2004 and 2005, and 0.3% of GDP in 2006.

The 2004-2006 medium-term expenditure framework provides for an increasing share of expenditure on culture within total public spending.

**Chart 10.1. Public Expenditure in Culture (Percent of Total Budget Expenditures)**

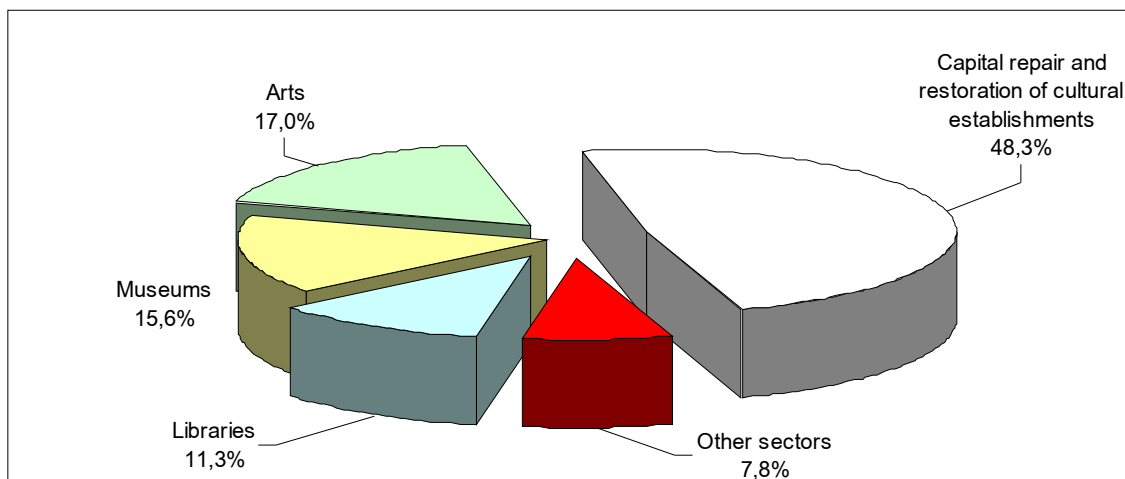
According to the 2004-2006 medium-term expenditure framework, expenditure on culture (including on the administrative apparatus maintenance costs and expenditures for capital repair and restoration of cultural establishments) will be 3,567.4 million drams in 2004, 4,370.5 million drams in 2005, and 6,164.6 million drams in 2006. The increase (decrease) of expenditures will be 310.2% in 2003, -67.8%<sup>16</sup> in 2004, 22.5% in 2005, and 41.1% in 2006.

The total increase in expenditure on culture over 2004-2006 is expected to be 3,030.1 million drams, including 74.9 million drams for administrative apparatus maintenance. Expenditure on wages in cultural and youth programmes (2,955.2 million drams) comprises 41.8% of this total increase.

Additional expenditure on culture over 2004-2006 will mainly be channelled to libraries (11.3%), museums (15.6%), arts (17.0%), capital repair and restoration of cultural establishment (48.3%), as well as to other sectors (7.8%). This is shown in Chart 10.2.

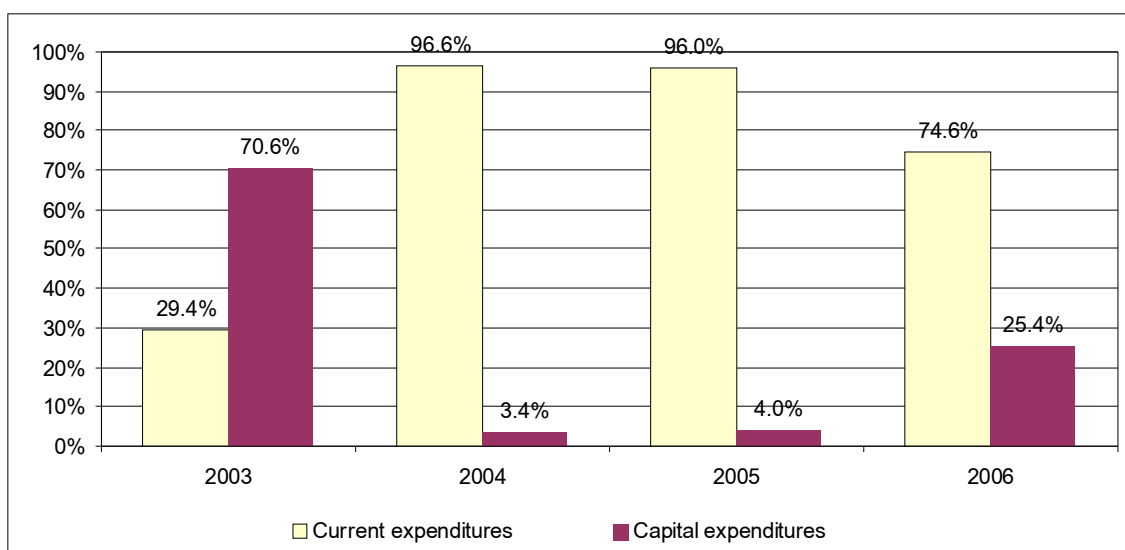
<sup>16</sup> The increase of expenditures excluding resources from the “Lincy” foundation, is 28.5% in 2003 and 2.6% in 2004.

**Chart 10.2. Distribution of Additional Expenditures in Culture for 2004-2006**



The structure of spending in culture, by current and capital expenditures, will be as follows:

**Chart 10.3. Structure of Public Expenditure in Culture, by Economic Classification Articles (Percent of Total Expenditure in Sector)**



The 2004-2006 expenditure allocations for culture by sub-groups, and the breakdown of current and capital expenditure, are presented in Annex 10.1.

In addition to the allocations from the State Budget, expenditure on culture has also been financed from the Ministry's own revenues. These revenues have been generated mainly through the provision of paid services, booking, as well as revenue from films.

The Ministry of Culture and Youth Affairs currently compiles a list of the tariffs of paid services, so as to regulate receipts from paid services and their effective spending, for stimulating the activities of cultural establishments and increasing the level of their self-financing.

Revenues from paid services have been directed to augmentation of wages, acquisition of goods, communal services, replenishment of library and museum stocks, as well as to the technical re-equipment of the "Hayfilm" studio.

The current and forecasted expenditures of the Ministry of Culture and Youth Affairs, financed from the State Budget and from own revenues of the Ministry, are presented in Table 10.1 by programmes.

**Table 10.1. Present and Forecasted Expenditures of the Ministry of Culture and Youth Affairs, Financed from the State Budget and from Own Revenues, by Programme (Million Drams)**

Title of subgroup	2002		2003		2004		2005		2006	
	Budgetary resources	Own resources	Budgetary resources	Own resources	Budgetary resources	Own resources	Budgetary resources	Own resources	Budgetary resources	Own resources
	<i>Actual</i>		<i>Planned</i>		<i>Forecast</i>					
07.02. Libraries	233.5	127.0	253.6	6.2	297.5	7.3	429.8	10.5	506.2	12.4
<i>Percentage share in total expenditures</i>	<i>64.8</i>	<i>35.2</i>	<i>97.6</i>	<i>2.4</i>	<i>97.6</i>	<i>2.4</i>	<i>97.6</i>	<i>2.4</i>	<i>97.6</i>	<i>2.4</i>
07.03. Museums	207.7	21.2	357.1	8.0	428.1	9.6	604.6	13.5	717.2	16.1
<i>Percentage share in total expenditures</i>	<i>90.7</i>	<i>9.3</i>	<i>97.8</i>	<i>2.2</i>	<i>97.8</i>	<i>2.2</i>	<i>97.8</i>	<i>2.2</i>	<i>97.8</i>	<i>2.2</i>
07.06. Arts (theatre-concert enterprises)	673.9	129.9	775.4	208.8	854.2	230.1	1106.9	298.2	1248.9	336.4
<i>Percentage share in total expenditures</i>	<i>83.8</i>	<i>16.2</i>	<i>78.8</i>	<i>21.2</i>	<i>78.8</i>	<i>21.2</i>	<i>78.8</i>	<i>21.2</i>	<i>78.8</i>	<i>21.2</i>
07.07. Cinematography (production of fiction and animated films)	350.5	19.0	374.5	9.0	385.7	9.3	397.3	9.5	409.2	9.8
<i>Percentage share in total expenditures</i>	<i>94.9</i>	<i>5.1</i>	<i>97.7</i>	<i>2.3</i>	<i>97.7</i>	<i>2.3</i>	<i>97.7</i>	<i>2.3</i>	<i>97.7</i>	<i>2.3</i>

**Annex 10.1. Budgetary Allocations to Culture for 2002-2006, by Subgroups of Functional Classification, and by Current and Capital Expenditures (Million Drams)**

No	Title of subgroup	2002	2003	2004	2005	2006
		Actual	Planned		Forecast	
<i>Million drams</i>						
07.01.	Public administration	67.9	114.0	166.6	178.4	188.9
	<i>Including current expenditures</i>	67.9	114.0	166.6	178.4	188.9
07.02.	Libraries	333.3	380.7	442.4	617.0	720.5
	<i>Current expenditures</i>	333.3	379.2	431.1	599.1	695.7
	<i>Capital expenditures</i>	0.0	1.5	11.3	17.9	24.8
07.03.	Museums	378.0	581.2	574.8	808.0	953.2
	<i>Current expenditures</i>	378.0	481.2	545.4	752.4	871.7
	<i>Capital expenditures</i>	0.0	100.0	29.4	55.7	81.6
07.04.	Houses of culture, clubs	9.2	89.1	10.5	15.3	18.0
	<i>Current expenditures</i>	9.2	9.1	10.5	15.3	18.0
	<i>Capital expenditures</i>	0.0	80.0	0.0	0.0	0.0
07.05.	Other cultural establishments	91.9	87.9	94.6	113.0	124.3
	<i>Including current expenditures</i>	91.9	87.9	94.6	113.0	124.3
07.06.	Arts	764.0	1 079.1	1 011.6	1 313.3	1 434.3
	<i>Current expenditures</i>	764.0	1 049.1	1 011.6	1 313.3	1 434.3
	<i>Capital expenditures</i>	0.0	30.0	0.0	0.0	0.0
07.07.	Cinematography	393.3	420.4	433.0	445.9	459.3
	<i>Including current expenditures</i>	393.3	420.4	433.0	445.9	459.3
07.08.	Protection of monuments and cultural values	29.3	35.2	36.2	37.3	38.4
	<i>Including current expenditures</i>	29.3	35.2	36.2	37.3	38.4
07.10.	TV and radio programs	9.5	1.0	1.0	1.0	1.0
	<i>Including current expenditures</i>	9.5	1.0	1.0	1.0	1.0
07.11.	Publishing houses, editorial offices	337.6	381.8	403.6	420.5	435.4
	<i>Including current expenditures</i>	337.6	381.8	403.6	420.5	435.4
07.12.	Collection of information	37.4	47.9	49.3	50.8	52.3
	<i>Including current expenditures</i>	37.4	47.9	49.3	50.8	52.3
07.14.	Youth programs	153.1	197.9	203.8	209.9	216.2
	<i>Including current expenditures</i>	153.1	197.9	203.8	209.9	216.2
07.15.	Political parties, NGO-s, trade unions	100.0	60.0	60.0	60.0	60.0
	<i>Including current expenditures</i>	100.0	60.0	60.0	60.0	60.0
	"Rehabilitation of Cultural Centres" programme financed by "Lincy" foundation	0.0	7 617.3	0.0	0.0	0.0
	<i>Including capital expenditures</i>	0.0	7 617.3	0.0	0.0	0.0
	Complex programme of capital repair and restoration of cultural establishments	0.0	0.0	80.0	100.0	1 462.7
	<i>Including capital expenditures</i>	0.0	0.0	80.0	100.0	1 462.7
	<b>TOTAL</b>	<b>2 704.5</b>	<b>11 093.4</b>	<b>3 567.4</b>	<b>4 370.5</b>	<b>6 164.6</b>
	<i>Current expenditures</i>	2 704.5	3 264.6	3 446.7	4 196.9	4 595.6
	<i>Capital expenditures</i>	0.0	7 828.8	120.7	173.5	1 569.0
<i>Percent of total</i>						
07.01.	Public administration	2.5	1.0	4.7	4.1	3.1
07.02.	Libraries	12.3	3.4	12.4	14.1	11.7
07.03.	Museums	14.0	5.2	16.1	18.5	15.5
07.04.	Houses of culture, clubs	0.3	0.8	0.3	0.4	0.3
07.05.	Other cultural establishments	3.4	0.8	2.7	2.6	2.0
07.06.	Arts	28.2	9.7	28.4	30.0	23.3
07.07.	Cinematography	14.5	3.8	12.1	10.2	7.5
07.08.	Protection of monuments and cultural values	1.1	0.3	1.0	0.9	0.6
07.10.	TV and radio programmes	0.3	0.0	0.0	0.0	0.0
07.11.	Publishing houses, editorial offices	12.5	3.4	11.3	9.6	7.1
07.12.	Collection of information	1.4	0.4	1.4	1.2	0.8
07.14.	Youth programmes	5.7	1.8	5.7	4.8	3.5
07.15.	Political parties, NGO-s, trade unions	3.7	0.5	1.7	1.4	1.0
	"Rehabilitation of Cultural Centres" programme financed by "Lincy" foundation	0.0	68.7	0.0	0.0	0.0
	Complex programme of capital repair and restoration of cultural establishments	0.0	0.0	2.2	2.3	23.7
	<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	<i>Current expenditures</i>	100.0	29.4	96.6	96.0	74.5
	<i>Capital expenditures</i>	0.0	70.6	3.4	4.0	25.5
<i>Percentage change, compared with the previous year</i>						
07.01.	Public administration		68.0	46.1	7.1	5.9
07.02.	Libraries		14.2	16.2	39.5	16.8
07.03.	Museums		53.7	-1.1	40.6	18.0
07.04.	Houses of culture, clubs		870.9	-88.2	45.8	17.9
07.05.	Other cultural establishments		-4.4	7.6	19.4	10.0
07.06.	Arts		41.2	-6.3	29.8	9.2
07.07.	Cinematography		6.9	3.0	3.0	3.0
07.08.	Protection of monuments and cultural values		19.8	3.0	3.0	3.0
07.10.	TV and radio programmes		-89.3	0.0	0.0	0.0
07.11.	Publishing houses, editorial offices		13.1	5.7	4.2	3.6
07.12.	Collection of information		27.9	3.0	3.0	3.0

2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

No	Title of subgroup	2002	2003	2004	2005	2006
07.14.	Youth programmes		29.3	3.0	3.0	3.0
07.15.	Political parties, NGO-s, trade unions		-40.0	0.0	0.0	0.0
	"Rehabilitation of Cultural Centres" programme financed by "Lincy" foundation		-	-100.0	-	-
	Complex programme of capital repair and restoration of cultural establishments		-	-	25.0	1 362.7
	<b>TOTAL</b>		<b>310.2</b>	<b>-67.8</b>	<b>22.5</b>	<b>41.1</b>
	<i>Current expenditures</i>		20.7	5.6	21.8	9.5
	<i>Capital expenditures</i>		-	-98.5	43.8	804.1

**TELEVISION AND RADIO****SITUATIONAL OVERVIEW**

The 2004-2006 medium-term expenditure framework for television and radio has been developed on the basis of the Constitution of the Republic of Armenia, as well as the requirements of the ROA Law “On Television and Radio”.

The “Public Television Company” and the “Public Radio Company”, as well as the “Shirak Public Television and Radio” CJSC in Shirak region, governed by the Board of the Public Television and Radio Company as their top management body, produce and broadcast public television and radio programmes in Armenia.

The Board of the Public Television and Radio Company was established in accordance with the ROA Law “On Television and Radio” and started on January 1, 2002.

In 2002, the Public Television and Radio Company produced and broadcasted 15 hours of television programmes daily. This increased to 18 hours from January 1, 2003, pursuant to the ROA Law “On Television and Radio”. The Company has also been broadcasting abroad through satellite leasing.

The Public Television and Radio Company has produced, and broadcasted daily, 48 hours of radio programmes in 2002, and 50 hours of programmes in 2003.

The level of production and broadcasting of Shirak public television and radio have remained the same and amounted to 0.5 hours of television programmes and 0.5 hours of radio programmes.

Over 2004-2006, as in recent years, television and radio programmes will be produced along nine thematic directions, namely: informational-analytical, social-economic and public-political, cultural, spiritual, musical, health care, legal, scientific-popular and cognitive, as well as children’s-juvenile, youth, educational and sport.

**Table 10.2. Share of Thematic Directions within Total Hours of TV Broadcasting in 2002**

Thematic directions of television programmes	Percentage share in total hours
1. Informational-analytical	16.1
2. Social-economic, public-political	16.8
3. Cultural	26.2
4. Mental	1.3
5. Musical	7.8
6. Health care	0.4
7. Legal	0.6
8. Scientific-popular, cognitive	6.6

9. Children's-juvenile, youth, educational, sports	24.2
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**Table 10.3. Share of Thematic Directions within Total Hours of Radio Broadcasting in 2002**

Thematic directions of radio programmes	Percentage share in total hours
1. Informational-analytical	48.2
2. Social-economic, public-political	1.6
3. Cultural	3.1
4. Mental	3.3
5. Musical	42.5
6. Children's-juvenile, educational	2.8
7. Youth	37.9
8. Stereo-studio	28.7
9. Programmes for forecasting abroad	11.5

Over 2002-2003, the Public Television Company and the Public Radio Company have also been archiving television and radio programmes of cultural and historical value, as ordered by the state.

In general, 2,000 hours of television programmes and 2,586.5 hours of radio programmes have been archived in 2001. Another 2000 hours of television programmes and 1,725 hours of radio programmes will be archived in 2003.

The Board of the Public Television and Radio Company has also procured the implementation of the programme for surveying public opinion on television and radio. This has enabled the consideration of public opinion in drafting programmes for the coming years.

The Board of the Public Television and Radio Company has implemented a programme for maintaining the reserve system for Armenian radio and television. The purpose of the reserve system is to assure uninterrupted broadcasting of the Public Television Company and of the Public Radio Company in states of emergency.

The statutory capital of the Public Television Company has been replenished by 153.0 million drams in 2002. These resources have been channelled to the technical re-equipment of the company.

The majority of budgetary allocations to the Public Television and Radio Company have been directed to television and radio programme broadcasting, executed by organisations under the Ministry of Transport and Communication.

Production and broadcasting of television and radio programmes has been allocated 1,827.8 million drams in 2002 and 2,135.1 million drams in 2003, with a distribution as presented below.

**Table 10.4. Distribution of Resources Allocated to Production and Broadcasting of TV and Radio Programmes for 2002-2003(Million Drams)**



## 2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

Resource utilisation	2002	2003
<b>Television programmes</b>		
Television programme broadcasting in the Republic of Armenia	609.4	498.7
Television programme broadcasting in the USA	300.0	320.0
Middle East and Northern Africa	473.6	560.0
Production of Television programmes	413.9	756.3
<b>Radio programmes</b>		
Radio programme broadcasting	554.8	458.9
Radio programme production	172.0	203.4

It is worth mentioning, that due to the work implemented by the Public Television and Radio Company, the resources spent on broadcasting of television and radio programmes have been reduced in 2003. The saved funds have been channelled to the production of programmes, since the budget allocations for this purpose were insufficient to reimburse all expenditures.

### **MAIN EXPENDITURE PRIORITIES IN TELEVISION AND RADIO FOR 2004-2006 MTEF PERIOD**

The policy underpinning the 2004-2006 medium term expenditure framework of the Board of the Public Television and Radio Company is based around the programmes that are necessary to implement the activities ascribed to the Board by the ROA Law “On Television and Radio”.

The Board of the Public Television and Radio Company carries out its activities through the “Public Television Company” CJSC, the “Public Radio Company” CJSC and the “Shirak Public Television and Radio” CJSC; as well as through the “Yerevan Studio”, and the “Yeter Creativity House”, mainly financed from the State Budget.

### **KEY OBJECTIVES OF EXPENDITURES ALLOCATED TO TELEVISION AND RADIO FOR 2004-2006**

For its 2004-2006 activities, the Public Television and Radio Company aims to achieve the following objectives:

- (i) Assuring a minimum of 18 hours of television and 50 hours of radio programme production and broadcasting, as prescribed by the ROA Law “On Television and Radio”;
- (ii) Assuring that a diversity of programmes are produced and broadcasted by the Public Television Company, the Public Radio Company, and the Shirak Public Television and Radio Company;
- (iii) Providing programmes and series to television viewers and radio listeners that reflect the interests of different regions of the Republic, of national minorities, as well as of different groups of the population, including various social groups;

- (iv) Replenishing the series of social-economic programmes with programmes on poverty reduction strategies and on their progress;
- (v) Assuring the broadcast of programmes of the Public Television Company and the Public Radio Company in the whole territory of the Republic, and abroad;
- (vi) Providing the population with impartial, reliable and useful information;
- (vii) Assuring a high quality of broadcasting within the whole territory of the Republic, through investments in the technical equipment of the television network;
- (viii) Arranging integration of the Public Television Company and the Public Radio Company into the European Broadcasting Network. The charter of the European Broadcasting Union does not currently allow the Public TV and Radio Company to participate in that Union. The Board of the Public Television and Radio Company, in conjunction with the ROA Government, will endeavour to join the Union by 2006;
- (ix) Increasing the level of commercial activities of the Public Television Company and the Public Radio Company, and increasing revenues from those activities, so as to reduce their subsidisation from the State Budget.

#### **EXPENDITURE DRIVERS FOR 2004-2006 MTEF PERIOD**

The budget for television and radio is planned to increase by 95.9 million drams in 2004. Based on the policy and priorities in the sector, additional expenditures will be used as follows:

- (i) 31.4 million drams will be directed to expenditures for increasing the quantity of broadcasting technical devices and replacing low-capacity devices with higher-capacity ones, so as to assure the high-quality of programme broadcasts of the Public Television Company and the Public Radio Company in the whole territory of the Republic;
- (ii) 56.9 million drams will be directed to buying foreign currency for broadcasting programmes of the Public Television Company abroad;
- (iii) 5.1 million drams will be allocated to increasing wages of Public Radio Company employees, in order to improve their social conditions.

At the same time, the administrative central apparatus maintenance costs will be reduced by 9.8 million drams. This reduction will be reflected in capital expenditures.

#### **PLANNED EXPENDITURES**

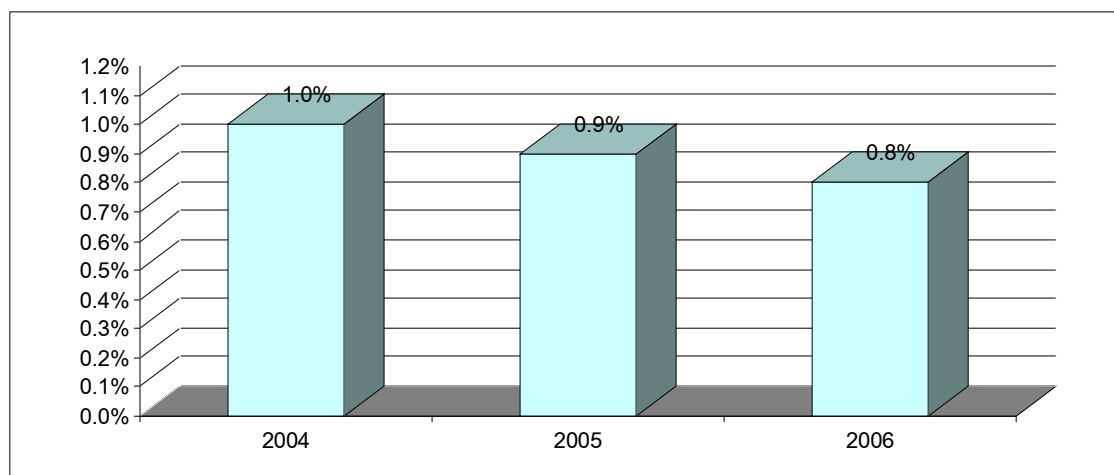
According to the 2004-2006 medium-term expenditure framework, expenditure on TV and radio (including central administrative apparatus maintenance costs) will amount to 3,156.4 million drams in 2004, 3,200.1 million drams in 2005, and 3,246.6 million drams

in 2006. The increase in expenditure will be 9.7% in 2003, 2.8% in 2004, 1.4% in 2005, and 1.5% in 2006.

The annual share of spending on television and radio within GDP, as stipulated by the medium-term expenditure framework for 2004-2006, will be 0.2%.

The annual expenditure on television and radio within total budget expenditures, within the 2004-2006 medium-term expenditure framework, will be as follows.

**Chart 10.4. Public Expenditure in TV and Radio (Percent of Total Budget Expenditure)**



At the same time, due to the technical re-equipment of the Public Television Company and the Public Radio Company, the share of current expenditures will change.

The distribution of budgetary resources provided for the programmes “Subsidising of the Armenian Public Television Company CJSC” and “Subsidising of Armenian Public Radio Company CJSC” is presented below:

**Table 10.5. Subsidising of the Armenian Public Television Company CJSC (Million Drams)**

Television programmes	2004	2005	2006
Television programme production (6570 hours)	756.3	756.3	756.3
Television programme broadcasting in the Republic of Armenia (6,570 hours)	530.2	530.2	530.2
Television programme broadcasting abroad	936.9	969.3	1004.5

**Table 10.6. Subsidising of Armenian Public Radio Company CJSC (Million Drams)**

Radio programs	2004	2005	2006
Radio programme production (18,250 hours)	216.4	221.9	227.9
Radio programme broadcasting	451.0	451.0	451.0

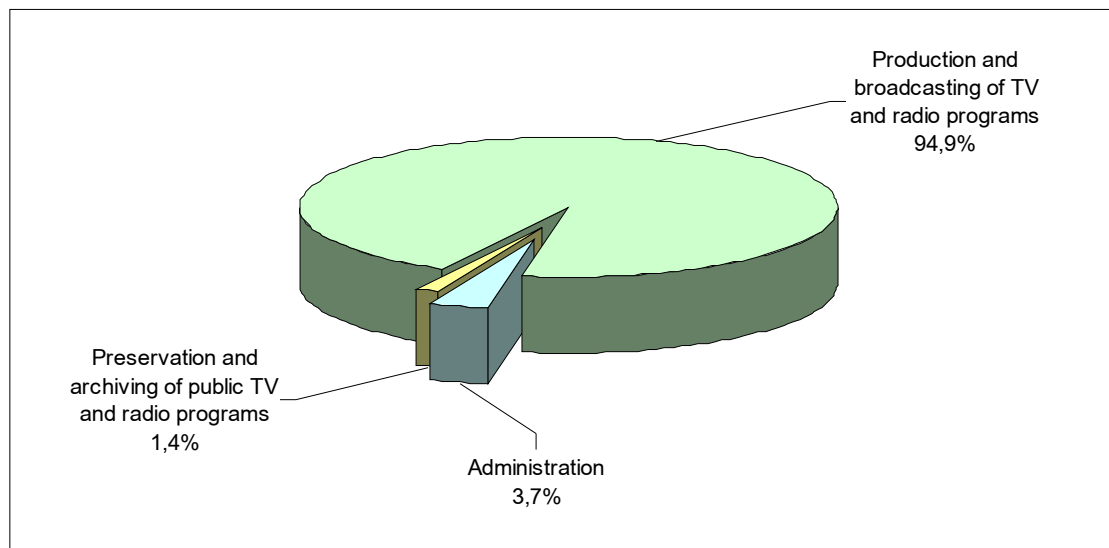
Furthermore, due to the introduction of new and efficient broadcasting technologies, expenditure in broadcasting will decline by around 13.0 million drams, and the released

resources will be channelled to increasing wages and improving the social conditions of employees.

Allocations to the sector of television and radio will be directed to maintenance of the administrative apparatus, production and broadcasting of programmes by the Public Television and Radio Company, and by the Shirak Public Television and Radio Company, preservation and archiving of public television and radio programmes, production of television films, surveys of public opinion, as well as to maintenance of the reserve system of public television and radio programmes.

The above-mentioned programmes will have the following shares within total allocations to the sector:

**Chart 10.5. Structure of Public Expenditure in TV and Radio (Percent)**



Based on the main priorities and objectives of the Public Television and Radio Company, for the 2004-2006 period, priority will be given to consistent activities in the following directions:

- (i) Maintenance of the Board of the Public Television and Radio Company;
- (ii) Production and broadcasting of the Public Television Company programmes (18 hours daily, in 9 thematic directions);
- (iii) Broadcasting of the Public Television Company programmes abroad, through satellite leasing;
- (iv) Production and broadcasting of the Public Radio Company programmes (50 hours daily, in 9 thematic directions) in the territory of Armenia and abroad;
- (v) Production and broadcasting of television and radio programmes of the Shirak Public Television and Radio Company (0.5 hours daily, for each);

2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

- (vi) Archiving of the Public Television Company and the Public Radio Company programmes of cultural and historical value (2,000 hours and 1,725 hours, respectively);
- (vii) Maintenance of the reserve system of Armenian Public Television and Radio;
- (viii) Production of television films to be broadcasted by the Public Television Company (with 2 hours of screen-time);
- (ix) Surveying public opinion on programmes of the Public Television Company and the Public Radio Company.

Budgetary allocations to television and radio for 2002-2006, by different subgroups and by current and capital expenditures, are presented in Annex 10.2.

2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

Annex 10.2. Budgetary Allocations to TV and Radio for 2002-2006, by Subgroups of Functional Classification, and by Current and Capital Expenditures (Million Drams)

No	Title of subgroup	2002	2003	2004	2005	2006
		Actual	Planned	Forecast		
		<i>Million drams</i>				
07.01	Public administration	102.7	126.6	116.8	120.2	122.8
	<i>Current expenditures</i>	96.7	106.1	116.8	120.2	122.8
	<i>Capital expenditures</i>	6.0	20.5	0.0	0.0	0.0
	<i>Including</i>					
	Board of the Public Television and Radio Company	24.3	26.3	36.8	39.0	41.1
	<i>Current expenditures</i>	19.5	26.3	36.8	39.0	41.1
	<i>Capital expenditures</i>	4.8	0.0	0.0	0.0	0.0
	National Committee of Television and Radio	78.4	100.3	80.0	81.2	81.7
	<i>Current expenditures</i>	77.2	79.8	80.0	81.2	81.7
	<i>Capital expenditures</i>	1.2	20.5	0.0	0.0	0.0
07.05	Preservation and archiving of Public Television and Radio Company programmes	45.2	45.2	45.2	45.2	45.2
	<i>Including current expenditures</i>	45.2	45.2	45.2	45.2	45.2
07.10	Television and radio programmes	2 651.7	2 898.5	2 994.4	3 034.7	3 078.6
	<i>Including current expenditures</i>	2 651.7	2 898.5	2 994.4	3 034.7	3 078.6
	<i>Including</i>					
07.10.01	State order for production of television films	29.9	29.9	30.8	31.7	32.6
07.10.02	Subsiding of "Armenian Public Television Company" CJSC (Million Drams)	1 872.6	2 135.1	2 223.4	2 255.7	2 291.0
07.10.03	Subsiding of "Armenian Public Radio Company" CJSC (Million Drams)	682.9	662.3	667.4	672.9	678.9
07.10.04	Subsiding of "Shirak Public Television and Radio" CJSC (Million Drams)	15.1	15.9	15.9	15.9	15.9
07.10.05	Subsiding of Armenian television and radio reserve system	0.0	5.6	5.7	5.9	6.1
07.10.06	Armenia's share in expenditures of "Mir" inter-state television and radio company	47.2	47.2	48.7	50.1	51.6
07.10.07	Subsiding of "Public Opinion Research Centre" CJSC	4.0	2.5	2.5	2.5	2.5
	<b>TOTAL</b>	<b>2 799.6</b>	<b>3 070.3</b>	<b>3 156.4</b>	<b>3 200.1</b>	<b>3 246.6</b>
	<i>Current expenditures</i>	2 793.6	3 049.8	3 156.4	3 200.1	3 246.6
	<i>Capital expenditures</i>	6.0	20.5	0.0	0.0	0.0
		<i>Percent of total</i>				
07.01	Public administration	3.7	4.2	3.7	3.8	3.8
	<i>Including</i>					
	Board of the Public Television and Radio Company	0.9	0.9	1.2	1.2	1.3
	National Committee of Television and Radio	2.8	3.3	2.5	2.5	2.5
07.05	Preservation and archiving of Public Television and Radio Company programmes	1.6	1.5	1.4	1.4	1.4
07.10	Television and radio programmes	94.7	95.0	94.9	94.8	94.8
	<i>Including</i>	0.0	0.0	0.0	0.0	0.0
07.10.01	State order for production of television films	1.1	1.0	1.0	1.0	1.0
07.10.02	Subsiding of "Armenian Public Television Company" CJSC (Million Drams)	66.9	70.0	70.4	70.5	70.6
07.10.03	Subsiding of "Armenian Public Radio Company" CJSC (Million Drams)	24.4	21.7	21.1	21.0	20.9
07.10.04	Subsiding of "Shirak Public Television and Radio" CJSC (Million Drams)	0.5	0.5	0.5	0.5	0.5
07.10.05	Subsiding of Armenian television and radio reserve system	0.0	0.2	0.2	0.2	0.2
07.10.06	Armenia's share in expenditures of "Mir" inter-state television and radio company	1.7	1.5	1.5	1.6	1.6
07.10.07	Subsiding of "Public Opinion Research Centre" CJSC	0.1	0.1	0.1	0.1	0.1
	<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	<i>Current expenditures</i>	99.8	99.3	100.0	100.0	100.0
	<i>Capital expenditures</i>	0.2	0.7	0.0	0.0	0.0
		<i>Percentage change, compared with the previous year</i>				
07.01	Public administration		23.3	-7.7	2.9	2.2
	<i>Including</i>					
	Board of the Public Television and Radio Company		8.2	39.9	6.0	5.4
	National Committee of Television and Radio		27.9	-20.2	1.5	0.6
07.05	Preservation and archiving of Public Television and Radio Company programmes		0.0	0.0	0.0	0.0
07.10	Television and radio programmes		9.3	3.3	1.3	1.4
	<i>Including</i>					
07.10.01	State order for production of television films		0.0	3.0	2.9	2.8
07.10.02	Subsiding of "Armenian Public Television Company" CJSC (Million Drams)		14.0	4.1	1.5	1.6
07.10.03	Subsiding of "Armenian Public Radio Company" CJSC (Million Drams)		-3.0	0.8	0.8	0.9
07.10.04	Subsiding of "Shirak Public Television and Radio" CJSC (Million Drams)		5.3	0.0	0.0	0.0
07.10.05	Subsiding of Armenian TV and radio reserve base		-	1.8	3.5	3.4
07.10.06	Armenia's share in expenditures of "Mir" inter-state TV and radio company		0.0	3.2	2.9	3.0
07.10.07	Subsiding of "Public Opinion Research Centre" CJSC		-37.5	0.0	0.0	0.0
	<b>TOTAL</b>		9.7	2.8	1.4	1.5
	<i>Current expenditures</i>		9.2	3.5	1.4	1.5
	<i>Capital expenditures</i>		241.7	-100.0	-	-

## **PHYSICAL CULTURE AND SPORTS**

The 2004-2006 medium-term expenditure framework for physical culture and sports has been developed on the basis of the Constitution of the Republic of Armenia, of the ROA Law “On Physical Culture and Sports”, of the concept paper of public policy in physical culture and sports, as well as of the Decree of the ROA Government dated June 17, 2003 “On Approving the Action Plan of the Government of the Republic of Armenia”, taking into consideration organisational-structural changes introduced in the system of physical culture and sports of the Republic of Armenia, and the optimisation programme.

The development of the 2004-2006 medium-term expenditure framework for physical culture and sports has been based on the principles of preserving the national gene-fund, developing the physical status and health of the population, preventing diseases, assuring the harmonic development of the individual, improving the physical health and weight of young people, training highly qualified sports-people, raising the country’s rating in the international arena, assuring successful participation of Armenia’s national teams in the Olympic games, world and European championships, as well as organising Pan-Armenian sport events.

### **SITUATIONAL OVERVIEW**

The State Committee of Physical Culture and Sports of the Government of the Republic of Armenia is the authorised public administration body of Armenia’s physical culture and sports system. The Committee has been engaged in the definition and implementation of the general policy in the sector and assuring its scientific-methodological management. A number of non-governmental organisations, in conjunction with the public administration body, also participate in policy development in the sector, such as the Armenian National Olympic Committee (ANOC), national federations, unions, associations and clubs of approximately 60 sport disciplines.

There were 223 children’s and juvenile training schools operating in Armenia in 1990, with total enrolment of 76,000 trainees and 2,359 trainer-pedagogues. There are currently 164 training schools, with a total of 35,000 trainees and 1,295 trainers.

During the last decade the number of training schools has decreased by 59, while the number of trainees has fallen by 41,000 and trainer-pedagogues have been reduced by 1,064. Training schools have been financed both from the State Budget and from community budgets, as per their subordination. Allocations from the State Budget have been planned in the respective programmes of the educational sector.

During the 1980s and 1990s, Armenia won broad recognition in the international sports arena, due to its progress and achievements, and was considered to be a country with serious sport potential.

For the last decade, however, a number of sports establishments have become obsolete and are struggling to survive. This has been caused by the deterioration of the social-economic situation in the country, the absence of financing, the lack of sports inventory and accessories, failure to implement repair works and to heat the buildings. These factors have severely restricted the activities in the sector and brought it to a crisis point. Allocations from the State Budget have been mainly channelled to high-profile sports, that is, to the development of five or six sports and participation in international championships in those sports. In the majority of educational institutions, teaching of the subject “Physical Culture” and arrangement of mass health and sports actions has ceased, the number of groups, teams, training schools and trainees of certain traditional disciplines (water jump, table tennis, shooting, athletics, pentathlon, soccer, game sports) has declined, and many leading sportsmen and trainers have abandoned the country.

Certain positive trends have been observed in physical culture and sports over 1999-2003, due to organisational-structural improvements, a gradual increase in financing, implemented programmes and the Government’s support. This progress has been especially apparent in the training of high-qualified sports-people, in their material security and in the gradual recovery of past traditions. This has also been reflected in the achievements and medals gained by Armenian sportsmen (on average, 80-90 medals annually) in world and European championships.

Further development of physical culture and sports in the Republic of Armenia has been greatly hindered by the absence of legal statements on the sector, and more often, disregard of some organisations of the requirements of the existing legislative statements. There are no standard criteria determined for the population’s physical development and physical preparedness. Application of such criteria would support the control and maintenance of the quality of physical training at a proper level.

In higher and secondary vocational educational institutions, physical training has been taught without state curricula. Furthermore, for some years of study, principals and chancellors determine the quantity of hours designated for the subject, in violation of requirements of the ROA Law “On Physical Culture and Sports”. In a majority of private licensed higher education institutions, physical training has been completely ignored.

#### **MAIN EXPENDITURE PRIORITIES IN PHYSICAL CULTURE AND SPORTS FOR 2004-2006 MTEF PERIOD**



Priorities in the sector of physical culture and sports include developing the physical status and health of the population, development of the individual, assuring consistency of physical training for different age and social groups of citizens, training of highly qualified sports-people, as well as organising Pan-Armenian sport events.

**KEY OBJECTIVES OF EXPENDITURES ALLOCATED TO PHYSICAL CULTURE AND SPORTS FOR 2004-2006**

The objectives of physical culture and sports for 2004-2006 will be attained through the following state special-purpose programmes for:

- (i) Physical training of the population;
- (ii) Training of the Olympic young generation and of highly qualified sports-people;
- (iii) Improvement of the collaboration between the physical culture and sports establishments, both public and private;
- (iv) Elaboration of legal statements regulating the sector.

*Programme for Physical Training of the Population*

Implementation of the programme will be focused on solving the following basic problems:

- (i) Certification of operating educational institutions and sport establishments by their place of residence; renovation of playing grounds, planning of construction of new institutions, allotment of sports inventory;
- (ii) Implementing mass health and sports activities, such as the National Assembly Cup, defence-sports games of youth of call-up age, “Ball of Hope” competitions, sports games in the regions of the Republic of Armenia, republican festivals of national sport disciplines;
- (iii) Improvement of health and sports activities for the disabled, conducting republican festivals;
- (iv) Elaboration and introduction of the “Health” a set of national norms for the population’s physical preparedness (similar to the PAP set of norms);
- (v) Development of propaganda about physical preparedness and sports, and for encouraging a healthy lifestyle.

*Programme for Training of the Olympic Young Generation and of Highly Qualified Sportsmen*

Implementation of the programme will be focused on the following basic problems:

- (i) Targeted training of the sports-people included in Armenia’s national teams and their participation in the Olympic games, in world and European

championships, in qualification competitions, and in international tournaments;

- (ii) Arrangement of training and practice assemblies, provision of sports inventory and clothing to sports-people;
- (iii) Implementation of all activities stipulated by the annual sport plan;
- (iv) Improvement of scientific-methodological, medical and anti-drug services provided to Armenia's national teams, installation of respective sports inventory and accessories in training centres;
- (v) Payment of pecuniary prizes to winners and prize-winners in the Olympic games, in world and European championships, and in cup- tournaments;
- (vi) Arrangement and implementation of international official sport activities in the territory of the country.

*Improvement of Collaboration Between Public and Private Physical Culture and Sports Establishments*

The physical culture and sports sector was previously solely managed by state institutions, and participation of non-governmental organisations in this process was of a formal nature.

In order to enhance the role and efficiency of the current non-governmental organisations, there is a need to establish the relevant legislative framework and normative statements.

Implementation of the programme focuses on the following basic problems:

- (i) Further formation of non-governmental organisations operating in the sector;
- (ii) Strengthening mutually beneficial collaboration between non-governmental organisations;
- (iii) Increasing the number of trainees in health and sports groups, founding new sport establishments;
- (iv) Obtaining additional financial resources for the sector's development, with a gradual reduction in allocations from the State Budget.

*Elaboration of Legal Statements Regulating the Sector*

Implementation of the programme focuses on the following basic problems:

- (i) Amendment and alteration of the ROA Law on "On Physical Culture and Sports";
- (ii) Elaboration of the standard criteria for physical preparedness of the population of the Republic of Armenia;
- (iii) Elaboration of standard criteria for physical development of the population of the Republic of Armenia;

- (iv) Elaboration of a regulation for further development of the system of training and re-training physical culture specialists;
- (v) Elaboration of regulations for examinations of the “Physical Culture” subject to be held in final classes of general education schools;
- (vi) Elaboration of programmes for distribution of training schools and development of sport disciplines in the territory of the Republic.

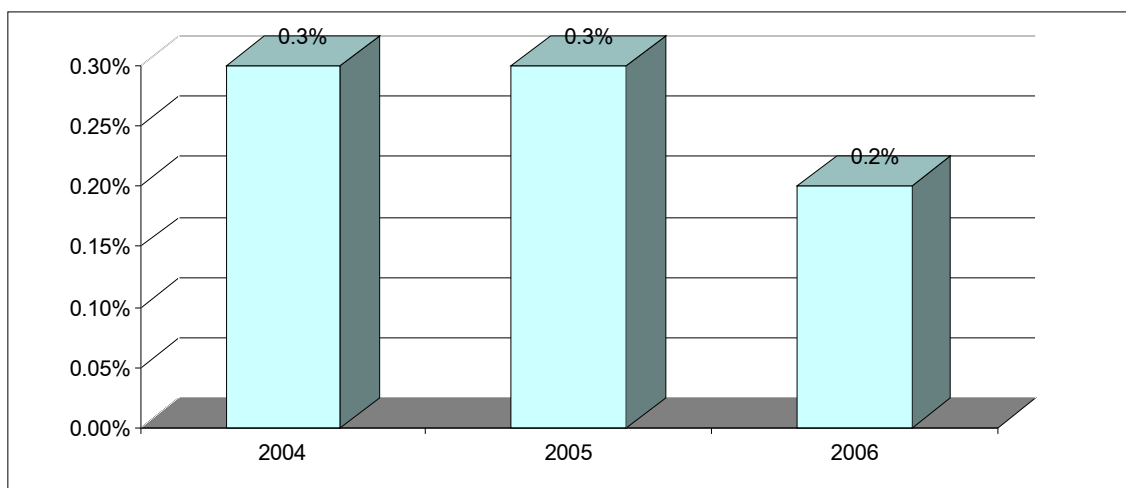
**PLANNED EXPENDITURES**

According to the 2004-2006 medium-term expenditure framework, public spending on physical culture and sports (including central administrative apparatus maintenance costs) will be 894.0 million drams in 2004, 895.4 million drams in 2005, and 897.6 million drams in 2006. The increase of expenditures, as compared with the previous year, will be 33.9% in 2003, 2.4% in 2004, and 0.2% in 2005 and in 2006.

The annual share of expenditure on physical culture and sports within GDP, according to the 2004-2006 medium-term expenditure framework, will be 0.06% in 2004, and 0.05% in 2005 and 2006.

The annual budgetary expenditure on physical culture and sports, within total budget expenditures as planned in the 2004-2006 medium-term expenditure framework, will be as follows.

**Chart 10.6. Public Expenditure in Physical Culture and Sports (Percent of Total Budget Expenditure)**



Expenditure on physical culture and sports, as planned in the 2004-2006 medium-term expenditure framework, will be channelled to the following programmes:

- (i) Participation of Armenia’s national teams in world and European championships and international tournaments, arrangement of training and practice assemblies and of Armenian championships, providing Armenia’s

national teams with sports inventory and clothing, assuring payment of pecuniary prizes to winners and prize-winners in the Olympic games, in world and European championships, and in cup-tournaments. Allocations for these purposes will be 486.8 million drams in 2004, and 577.9 million drams for both 2005 and 2006;

- (ii) Implementation of the state programme for development of physical culture and sports – 180.0 million drams annually;
- (iii) The holding of other sport events stipulated by the annual sport plan – 65.0 million drams annually.

There is an allocation of 91.0 million drams planned for 2004, to assure participation of Armenia's national teams in the 28<sup>th</sup> Summer Olympic Games in Athens.

Budgetary allocations to physical culture and sports for 2002-2006, by different subgroups and programmes, and by current and capital expenditures, are presented in Annex 10.3.

**Annex 10.3. Budgetary Allocations to Physical Culture and Sports for 2002-2006, by Subgroups and Programmes of Functional Classification, and by Current and Capital Expenditures (Million Drams)**

No	Title of subgroup	2002	2003	2004	2005	2006
		<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
<i>Million drams</i>						
07.01.	Public administration			71.2	72.6	74.8
07.09.01.	Participation of Armenia's national teams in world and European championships and international tournaments		265.9	208.3	280.9	280.9
07.09.02.	Arrangement of Armenian championships		53.4	53.0	72.0	72.0
07.09.03.	Arrangement of training and practice assemblies		120.6	120.6	155.0	155.0
07.09.04.	Implementation of the public programme for physical culture development		188.0	180.0	180.0	180.0
07.09.05.	Payment of pecuniary prizes to winners and prize-winners in Olympic games, world and European championships, and cup- tournaments		50.0	100.0	50.0	50.0
07.09.06.	Provision of Armenia's national teams with sports inventory and clothing		20.0	5.0	20.0	20.0
07.09.07.	Arrangement of sport games between teams		40.0	40.0	40.0	40.0
07.09.08.	Implementation of other sport programmes		20.0	20.0	20.0	20.0
07.09.09.	Construction of cultural establishments		15.0	0.0	0.0	0.0
07.09.10.	Arrangement of the 3-rd Pan-Armenian Games		60.0	0.0	0.0	0.0
07.09.11.	Participation of Armenia's student-sportsmen in the World Universal Games in South Korea		35.0	0.0	0.0	0.0
07.09.12.	Special Olympic republican games		5.0	5.0	5.0	5.0
07.09.13.	Participation in the 28-th Olympic games		0.0	91.0	0.0	0.0
	<b>TOTAL</b>	<b>651.8</b>	<b>872.8</b>	<b>894.0</b>	<b>895.4</b>	<b>897.6</b>
	<i>Current expenditures</i>	<i>651.8</i>	<i>857.8</i>	<i>894.0</i>	<i>895.4</i>	<i>897.6</i>
	<i>Capital expenditures</i>	<i>0.0</i>	<i>15.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Percent of total</i>						
07.01.	Public administration			8.0	8.1	8.3
07.09.01.	Participation of Armenia's national teams in world and European championships and international tournaments		30.5	23.3	31.4	31.3
07.09.02.	Arrangement of Armenian championships		6.1	5.9	8.0	8.0
07.09.03.	Arrangement of training and practice assemblies		13.8	13.5	17.3	17.3
07.09.04.	Implementation of the public programme for physical culture development		21.5	20.1	20.1	20.1
07.09.05.	Payment of pecuniary prizes to winners and prize-winners in Olympic games, world and European championships, and cup- tournaments		5.7	11.2	5.6	5.6
07.09.06.	Provision of Armenia's national teams with sports inventory and clothing		2.3	0.6	2.2	2.2
07.09.07.	Arrangement of sport games between teams		4.6	4.5	4.5	4.5
07.09.08.	Implementation of other sport programmes		2.3	2.2	2.2	2.2
07.09.09.	Construction of cultural establishments		1.7	0.0	0.0	0.0
07.09.10.	Arrangement of the 3-rd Pan-Armenian Games		6.9	0.0	0.0	0.0
07.09.11.	Participation of Armenia's student-sportsmen in the World Universal Games in South Korea		4.0	0.0	0.0	0.0

2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

No	Title of subgroup	2002	2003	2004	2005	2006
07.09.12.	Special Olympic republican games		0.6	0.6	0.6	0.6
07.09.13	Participation in the 28th Olympic games		0.0	10.2	0.0	0.0
	<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	<i>Current expenditures</i>	<i>100.0</i>	<i>98.3</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
	<i>Capital expenditures</i>	<i>0.0</i>	<i>1.7</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
	<i>Percentage change, compared with the previous year</i>					
07.01.	Public administration				1.9	3.0
07.09.01.	Participation of Armenia's national teams in world and European championships and international tournaments			-21.7	34.9	0.0
07.09.02.	Arrangement of Armenian championships			-0.7	35.8	0.0
07.09.03.	Arrangement of training and practice assemblies			0.0	28.5	0.0
07.09.04.	Implementation of the public programme for physical culture development			-4.3	0.0	0.0
07.09.05.	Payment of pecuniary prizes to winners and prize-winners in Olympic games, world and European championships, and cup- tournaments			100.0	-50.0	0.0
07.09.06.	Provision of Armenia's national teams with sports inventory and clothing			-75.0	300.0	0.0
07.09.07.	Arrangement of sport games between teams			0.0	0.0	0.0
07.09.08.	Implementation of other sport programmes			0.0	0.0	0.0
07.09.09.	Construction of cultural establishments			-100.0	-	-
07.09.10.	Arrangement of the 3-rd Pan-Armenian Games			-100.0	-	-
07.09.11.	Participation of Armenia's student-sportsmen in the World Universal Games in South Korea			-100.0	-	-
07.09.12.	Special Olympic republican games			0.0	0.0	0.0
07.09.13	Participation in the 28-th Olympic games			-	-100.0	-
	<b>TOTAL</b>		33.9	2.4	0.2	0.2
	<i>Current expenditures</i>		31.6	4.2	0.2	0.2
	<i>Capital expenditures</i>		-	-100.0	-	-

## **CHAPTER 11. AGRICULTURE**

The policy of the Ministry of Agriculture in Armenia's agricultural sector for 2004-2006 will be targeted at improving the efficiency of agriculture and its servicing sectors. This will provide the grounds for further development of agriculture and broader agricultural production, for increasing the real incomes of farmers, enhancing the level of food supply and food security of the country, as well as for reducing rural poverty.

The policy to be implemented over the coming years will be aimed at establishing favourable economic conditions for agricultural activities, implementing programmes for the development of agricultural infrastructure, introducing new technologies, and expanding educational, informational and advisory services. Priority directions of the sector's development will include:

- (i) Development of the food market and assuring the increase in saleable output of farms, and the protection of the interests of local producers;
- (ii) Stimulation of agricultural product re-processing, as well as its sale and export, assuring the quality and safeness of food;
- (iii) Improvement of the meliorative (rehabilitation) condition of soil;
- (iv) Implementation of phyto-sanitary and veterinary activities, in accordance with agrarian rules;
- (v) Implementation of activities for the introduction of the agricultural insurance system;
- (vi) Development of the scientific-educational, informational, and advisory sector, and improvements in the availability of information.

In addition, improvement of the country's food security will be considered a major objective of agricultural development over 2004-2006.

Objectives and priorities of state policy in the agrarian sector are consistent with the tasks of the Poverty Reduction Strategy Paper. They are targeted at the reduction of rural poverty through sustainable agricultural development, more efficient utilisation of the available land, material-technical and labour resources, application of efficient farming techniques, as well as increasing the commercial output in the production and sale of agricultural products.

## **SITUATIONAL OVERVIEW**

Due to the policy carried out in the agricultural sector between 1994-2002, there has been growth in the sector, and the basis for further development has been established. Mitigation of the risks facing Armenian agriculture will remain the key focus of the Ministry of Agriculture's activities in the future.

The following natural and economic risk factors can be identified:

- (i) Natural disasters (frostbite, hail, floods, droughts, etc);
- (ii) Regular outbreaks of diseases of agricultural plants and animals;
- (iii) Deterioration of the meliorative condition of agricultural plots (increasing level of subsoil waters, salinisation of the soil, etc);
- (iv) Permanent risk of the penetration of agricultural animal's diseases and pests from neighbouring countries;
- (v) Increasing prices of material resources necessary for programme implementation;
- (vi) The typical slower growth of the agricultural product price index, as compared with that of other products.

Taking into consideration the development objectives and the main priorities and risks in the agricultural sector, the following programmes will be prioritised and consistently implemented over 2004-2006.

#### **SOIL IMPROVEMENT WORKS**

##### *Cleaning and Repair of the Collector-Drainage Network (10.02.01)*

In the Republic of Armenia, the total area of irrigated land with a drainage network is 34.3 thousand hectares, of which 26.3 thousand hectares are under open horizontal drainage, and 8 thousand hectares are under closed drainage. The overall length of open horizontal drainages is 978.8 kilometres and that of closed drainages is 670.0 kilometres, with the total amounting to 1648.8 kilometres.

During 1986-1991, the area of boggy lands in the country fluctuated in the range of 19 to 21.5 thousand hectares. Since 1992, due to the lack of financing, the drains have been either insufficiently cleaned, or have not been cleaned at all. This resulted in an expansion of boggy lands to 31.7 thousand hectares in 1995, or 11.3% of the total area, while in the Ararat Plain that indicator has even reached the level of 32.2%.

From 1998 to 2003, in six regions of the Republic (Ararat, Armavir, Gegharkunik, Lori, Kotayk, and Shirak) drains have been cleaned once in two or three years (in 1986-1991 they were cleaned every year). However, even if the drains continue to be cleaned at the present rate, there will be deterioration in the meliorative condition of the boggy lands, resulting in a rising level of subsoil waters, and undesirable salinisation. This upsets the natural environmental balance and increases the possibility of the spread of malaria. For

these reasons, it is planned to clean and repair 420-450 kilometres annually (by Deficiency Report) of the collector-drainage network over 2004-2006. The work will be implemented on a competitive basis, as prescribed by the ROA Law “On Procurements”. To strengthen control, programme implementation will be overseen by committees composed of representatives of the Ministry of Agriculture, regional government offices (Marzpetaran), local self-governance bodies, and farmers. For each contract, the committees will come up with a conclusion on the quality and terms of the implemented works.

*Works for Agro-Chemical Examination and Fertility Improvement of Soil, Implemented by the “Agricultural Chemicalisation Research Station” SNCO (10.02.02)*

Programme activities are of a regular nature and should be carried out once in every five years, given that the composition of nutrients conditioning the soil fertility changes substantially within that period.

Timely examinations will help to prevent the deterioration of soil fertility and assure the fertilisation of plants by scientifically approved methods.

*Works for Determination of the Level and Quality of Subsoil Waters, Implemented by the “Melioration” SCJSC (10.02.03)*

It is planned to conduct complex hydro-geological and meliorative examinations over 2004-2006. The aim is to compile the cadastre of the “Meliorative Condition of Irrigated and Dry Lands of the Republic of Armenia” by year-end, which will summarise:

- (i) Irrigated lands, by former administrative districts and regions;
- (ii) Areas of irrigated waters covered with salt extraction;
- (iii) Areas of irrigated waters under drainage;
- (iv) Length of the irrigation systems to be recovered during 2004-2006;
- (v) The depth of subsoil waters;
- (vi) Areas of boggy lands;
- (vii) Mineralisation of subsoil, irrigation and drainage waters;
- (viii) Determination of the level of salinisation and alkalisation of plots;
- (ix) Assessment of the meliorative status of the irrigated and dry lands;
- (x) Number of over-watered inhabited localities;
- (xi) Area of the irrigated lands temporarily transferred to the category of the non-watered;
- (xii) Action plan for improving meliorative condition of the irrigated lands.

*Salt Extraction from Irrigated Land in the Ararat Plain (10.02.05)*



The programme stipulates for salt extraction works on 8.0 thousand hectares of salinated land in the Ararat Plain. Results of this work will serve as a basis for elaboration of a desalination methodology and selection of the meliorant, as well as for planning and implementation of these activities.

## **PLANT PROTECTION**

### *Programme Implemented by the "Plant Protection Service" SNCO (10.04.01)*

Implementation of the following works has been planned for 2004-2006:

- (i) Monitoring of the vegetative-sanitary condition of agricultural plants;
- (ii) Forecasting and diagnosing the development of diseases and pests, accurately defining the damaged area, signalling the deadlines for fighting against diseases and pests, acknowledging the parties interested in pest management;
- (iii) Support and professional advice to legal entities and individuals on plant protection activities to be implemented in their agricultural, production, trade and storage areas;
- (iv) Expert examination of, and conclusion on, plant protection agents imported and exported by legal entities and individuals;
- (v) Sample expert examination of residual amounts of pesticides and nitrates in agricultural products;
- (vi) Elaboration and monitoring of centralised action plans for plant protection.

### *Programme Implemented by the "Plant Quarantine Service" SNCO (10.04.02)*

Implementation of the following works has been envisaged for 2004-2006:

- (i) Preventing penetration of pests, through the quarantine for plant products and other regulated items, into Armenia;
- (ii) Disclosing infection sources of quarantine diseases and pests in the territory of the Republic, taking actions for their elimination;
- (iii) Providing phyto-sanitary conclusions on imported and exported plant products.

### *Plant Protection Activities (10.04.03)*

The programme will target the implementation of centralised activities for protection of plants from the most widespread and poisonous organisms. On the basis of monitoring and the programme developed by the "Plant Protection Service" SNCO, it has been planned to take centralised actions on 107.0 thousand hectares annually over 2004 and 2005, and on 261.0 thousand hectares in 2006. The centralised actions for plant protection will include:

- (i) ***Fighting against mouse-like rodents*** – This programme could be implemented in two ways. The first approach is through procurement of pesticides and the centralised provision of plant protection services. In this case, 30,000 hectares of land would be covered in each of the first two years, and 57,000 hectares in the third year of the medium-term period. The second approach is through centralised procurement of pesticides and their distribution to rural communities. In this case, plant protection activities would be undertaken by farms, with the Ministry providing farmers with the necessary consultation and supervising the process. Taking the second option would enable an area that is 3.5 times larger to be covered with the same amount of expenditure. The final selection between these two options will not be made until 2004.
- (ii) ***Fighting against grasshoppers and crickets*** – These services will be provided in a centralised way, both in agricultural plantations and in hayfields, pastures, and other plots.
- (iii) ***Fighting against orchard quarantine pests*** – These services will be provided on the basis of monitoring and the programme developed by the “Plant Protection Service” SNCO, in the most infected orchards of the Republic.

For 2004-2006, the following plant protection works will be implemented:

- (i) In 2004 – on 107,000 hectares, for 180.0 million drams;
- (ii) In 2005 – on 107,000 hectares, for 180.0 million drams;
- (iii) In 2006 – on 261,000 hectares, for 396.5 million drams.

Selection of the areas to be covered by the plant protection activities has been based on the following principles:

- (i) The areas most infected by plant quarantine organisms and pests, as indicated by results of the monitoring carried out by the “Plant Protection Service” SNCO;
- (ii) Rural areas with a larger share of the socially vulnerable population and higher levels of poverty;
- (iii) Areas engaged in cultivation of basic crops.

Implementation of the programme activities will help to prevent the spread of vermin and minimise their habitat areas, thus providing the pre-requisites for high-quality and abundant crops.

## **VETERINARY AND ANTI-EPIDEMIC ACTIVITIES**

*Programme Implemented by the “Republican Anti-Epidemic and Diagnostic Centre” SNCO (10.05.01)*

Implementation of the following activities has been envisaged within the programme framework:

- (i) Vaccination monitoring (sero-monitoring) after taking anti-epidemic actions, so as to assess the results of preventive vaccinations against certain diseases;
- (ii) Establishment of a computerised database for vaccination result assessment, as a basis for identifying changes in anti-epidemic activities;
- (iii) Assessment of the resistance of vaccinations to certain types of diseases of agricultural animals;
- (iv) Preservation of vaccines and disinfectant agents in accordance with the determined norms;
- (v) Diagnosis of, and conclusions on, the test samples submitted by state veterinary inspectors and by frontier check-points;
- (vi) Cremation of infected animals subject to compulsory slaughter, and, in case of uncovering extremely infectious diseases, disinfection of the cattle premises;
- (vii) Implementation of anti-epidemic monitoring and collection of information on the anti-epidemic situation in neighbouring countries.

*Acquisition of Accessories for Vaccination and for Other Anti-Epidemic Actions, Anti-Epidemic Vaccinations (10.05.02), (10.05.03)*

These activities include compulsory anti-epidemic actions undertaken on an annual basis in the Republic. Preventive strategies against infectious diseases have been implemented for 14 types of animals in 2002, and for 7 types in 2003.

There will be a focus on fighting against quarantine and especially dangerous infectious diseases of animals, which pose a serious threat to humans and animals, over 2004-2006. This will cover the following seven most dangerous diseases – brucellosis, tuberculosis, anthrax, gangrene, pasteurellosis, and plague.

Prevention and eradication of quarantine and especially infectious diseases includes implementation of the following complex activities:

- (i) Acquisition of accessories for vaccination and for other anti-epidemic actions;
- (ii) Anti-epidemic vaccinations and diagnostic examinations.

As a result of programme implementation, anti-epidemic activities will cover some 920,000 cattle, 1,194,000 small livestock, 413,000 pigs and 15,000 horses. The increasing need for resources over the MTEF period is driven by around 8% natural growth annually. Since 2003, the Ministry of Agriculture has introduced unified software

for planning and implementation of veterinary activities, which has enabled continuous monitoring of implemented activities.

Implementation of the programme will contribute to stabilising infectious diseases in animals, to assuring production of high-quality meat foods and semi-products, as well as to protecting the population from diseases commonly infectious for humans and for animals.

### **LIVESTOCK BREEDING, SEED-FARMING, AND OTHER PROGRAMMES**

#### *Programme for Seed Quality Examination and State Sort-Expertise, Implemented by the “Centre for Expert Analysis of Selection Attainments and Examination of Seed Quality” SCJSC*

This programme provides for the testing and documentation of seed quality, thus also assuring the minimum volume of testing and documentation, as prescribed by the ROA Law “On Protection of Customer Concerns”. Implementation of the programme prevents the use of low quality seeds and sowing material, and assures reproduction of conditioned seeds. Proposed activities include:

- (i) Implementation of sort identification works;
- (ii) Sampling from seed batches;
- (iii) Experimenting with sample seeds in the laboratory;
- (iv) Approval of high-grade seed plants.

#### *Programme for Hydro Meteorological Activities, Implemented by the “Hydro Meteorological Service” SCJSC (10.07.04)*

Implementation of the programme will focus on the following problems:

- (i) Preventing loss of crops, by means of early warning about frostbite;
- (ii) Establishing effective irrigation practices, through estimating the water resources of rivers, lakes, water basins and other water surfaces, as well as of high-water factors in spring;
- (iii) Enable arrangement of preventative actions, through forecasting dangerous and extremely dangerous hydro-meteorological phenomena.

#### *Artificial Insemination Activities (10.07.05)*

In breeding nursery stations of Mkhchyan, Martuni, Ijevan, and Stepanavan, 580,000 doses of deep-frozen sperm has been stored. The programme for sperm storage by the deep-freezing method stipulates for storing sperm in the above-mentioned breeding nursery stations at a temperature of  $-196^{\circ}\text{C}$  (in a liquid nitrogen environment). This kind of environment enables the preservation of the biological characteristics and genetic

stability of sperm, assuring its required activity and allowing artificial insemination of cattle in the coming years.

Supporting collection of agriculture data (10.07.06)

The main objective of the programme will be collection of information on rural communities and different branches of agriculture and the automated processing, storage and analysis of the data. The aim is to provide information as a basis for the development of recommendations, programmes and other programmatic documents targeted at improving activities in the sector.

Based on the results of analysis, recommendations will be presented on the development of rural communities, plant breeding, branches of animal breeding, agricultural co-operation, food security and other sectors, as well as on the introduction of informational technologies into the agrarian sector.

Agricultural Reforms Support programme implemented through World Bank assistance (10.07.09)

The main objectives of the programme will be as follows:

- (i) Supporting implementation of programmes for utilisation and development of the resource potential of farms, collective farms and agricultural re-processing enterprises;
- (ii) Increasing the loan resources of participating financial institutions and broadening their capacity to lend to farms and agricultural re-processing enterprises;
- (iii) Through structural adjustments and modernisation of materials and technical equipment, improving the activities and efficiency of the scientific-research, training, advisory and informational infrastructure in the agricultural system.

The programme is proposed to finish in 2004, and until that date the following activities will be implemented:

- (i) Further improvement of the scientific and advisory systems in agriculture, financing of agricultural establishments and scientific thematic works, as stipulated by the “Strengthening Agricultural Establishments” component;
- (ii) Formulation of the new programme proposal, based on the provisions of the strategy for long-term agricultural development.

Agricultural Services Programme Implemented through Assistance of the International Fund for Agricultural Development (10.07.10)

The programme will be aimed at supporting co-operative associations of water users in their efforts for restoration, operation and maintenance of irrigation infrastructure, as well as contributing to the creation of new jobs through supporting financially sustainable

enterprises in poor rural communities, implementing targeted micro-financing, meeting the basic needs of rural communities through improvement of local infrastructure and services, and supporting sperm production and distribution. The programme is expected to end in 2004.

The following activities will be implemented during 2004:

- (i) Support to the non-governmental organisations of “Horticultural Unions” in the Tavush and Syunik regions to plant 175 hectares of peach, apricot, pomegranate, fig and olive orchards on the land of their member farmers;
- (ii) Collection and summarisation of information on the nature and allotment of land designated for planting orchards, arrangement of cultivation works, acquisition of planting material, planting of young trees, pruning, fertilisation and irrigation works;
- (iii) Support to the establishment of the “JMAK” state enterprise and of 12 water users’ associations;
- (iv) Support to the “Jrshin” SCJSC, so as to complete works for restoration of 30 units of the irrigation system;
- (v) Provision of approximately 8,000 seasonal short-term and medium-term loans to farmers in Shirak Lori, Aragatsotn, Tavush, Syunik, Kotayk, Vayotz Dzor, and Gegharkunik regions, through the Agricultural Co-operative Bank of Armenia;
- (vi) Provision of 60 units of lending to small businesses in Shirak Lori, Aragatsotn, Syunik, Tavush, and Vayotz Dzor regions, through the “Aniv” foundation;
- (vii) In conjunction with the Armenian Social Investment Fund, completion of restoration of works of social infrastructure starting from 2003.

## **NEW PROGRAMMES**

### *Agricultural Insurance Risk Assessment (10.07.07)*

The territory of the Republic is deemed to be a high-risk (exposure) agricultural production zone. Almost every year, natural calamities destroy or damage up to 20% to 25% of the crops. In this respect, introduction of an insurance system is a crucial issue for the sector, for which purpose a by-community assessment of insurance risks should be made for the regions, taking into consideration the probability of damage for agricultural plants and animals with higher risk exposure.

The programme suggests implementation of the following activities:

- (i) Elaboration of an insurance risk assessment methodology, based on the environmental and economic characteristics of the regions, and on best international practice;

- (ii) Automated processing of the materials (assessment and surveying pro-forma, registration forms, etc) necessary for collection and summarisation of initial data, assessment of loss in case of insurance events, and determination of coefficients based on collected initial data; calculation of resulting indicators of risk assessment;
- (iii) By-region calculation of the level (amount) of insurance fees for categories of agricultural plants and animals, presentation of proposals on insurance fees;
- (iv) Elaboration of mechanisms for the introduction of the insurance system in the agricultural sector.

For proposed implementation of the programme during 2004, around 40.0 million drams will be required. The examinations undertaken will allow the volume of public investment, which will be included in the 2005-2007 MTEF, to be determined.

*Numbering and Registration of Agricultural Animals in the Republic of Armenia (10.07.08)*

The programme aims to improve the breeding business for 2004-2006 through numbering and registration of the entire livestock of cattle in the country, as well as to enhance the efficiency and control of veterinary actions, and create the pre-requisites for using animals as security for loans. At the same time, development of a registration system and establishment of a database has been planned.

The programme will be an ongoing concern, and newborn calves, as well as animals imported from other countries, will be numbered on an annual basis.

The per head cost of cattle numbering and certification will be 400 drams. Numbering and registration of all cattle will be completed in three years, dividing the regions of the Republic into three groups.

Within the programme framework, it is planned to number 194,400 cattle in 2004, 286,400 in 2005, and 361,300 in 2006; a total of 842,100 cattle in three years.

Implementation of these activities will require around 85.0 million drams in 2004, 107.8 million drams in 2005, and 159.0 million drams in 2006; a total of 351.8 million drams over three years.

The implementation of the programme will enable the formation of reliable data on cattle livestock. This will enable improvements in the efficiency of the breeding business and veterinary activities, the establishment of a system for numbering and registration of animals, and the use of the generated data in the development of strategic programmes.

As a result of programme implementation, the efficient arrangement of the breeding business and veterinary activities will result in an increased volume of animal products,

by 2.0% and 1.5%, respectively. After adopting the programme, the rules for numbering and registration of livestock, as well as for issuing licenses, will be submitted for the Government's approval.

*Adjustment of Irrigation Norms and Modes of Agricultural Plants (10.02.04)*

The programme is expected to start in 2005.

The most urgent problem in irrigation of agricultural plants is currently the allotment of sufficient quantities of water and collection of water fees. This requires attention to be paid to the determination of water consumption and of irrigation modes. For a variety of reasons, crops losses have taken place due to the unplanned usage of water, as well as from over-watering and under-watering of plants. In order to assure the effective utilisation of irrigation water, there is a need to clearly determine the real demand for water to ensure the normal growth and fertility of plants, as well as the reasons for losses.

The programme stipulates that, when there is 50% and 75% atmospheric precipitation, irrigation norms and modes should be calculated by applying the thermal balance calculation method. On that basis, calculations will be made for the basic crops cultivated in irrigated areas of the Republic, by agricultural regions, with a detailed coverage of their zonal and soil categorisation in accordance with pre-selected locality and position criteria. Thus, irrigation norms and modes, that are over 30 years old, will be replaced with new norms that meet the modern requirements of irrigation. The application of new norms will support the supplying of plants with sufficient quantities of water during their vegetation period, while also enabling 10% to 15% savings in water resources.

*Radical Improvement of Repeatedly Salted Irrigated Land in the Ararat Plain (10.02.06)*

In the first stage of the radical improvement of soil (2005-2006), it is planned to restore and reconstruct 1,535 hectares per annum of closed drains in Ararat and Armavir regions.

The cost of this work will amount to 369.1 million drams.

The activities undertaken over 2005-2006 are expected to result in the regulation of subsoil water levels, assuring the sustainable fertility of agricultural plants and preventing cases of repeated salinisation.

*Improvement and Watering of Natural Pastures (10.02.07)*

The programme is planned to start in 2005.

Developments in the agricultural sector over the last decade have resulted in an extremely unfavourable usage of natural pastures. In particular, due to failures in improving and watering distant pastures, these pastures have remained almost unused. At the same time, pastures located near to inhabited localities have been overburdened, resulting in



depletion of herbage and intensive soil erosion, thus extremely reducing pasture usage efficiency. If no remedial actions are taken, the situation will result in pastures located near to inhabited localities becoming unusable. At the same time, distant pastures will experience the manifestation of negative phenomena such as cloding of soil, depletion of herbage, and mass expansion of useless, poisonous and verminous plants. Therefore, the implementation of activities to improve and water these pastures has become an urgent issue.

The programme plans for the assessment of the condition of natural pastures, implementation of surface improvement activities, and the systematisation of pasture usage. In parallel, the restoration of watering systems have been planned.

### PLANNED EXPENDITURES

Increasing and more efficient expenditure in agriculture is considered a priority for the whole planning period. Summarised forecasts of public spending in the sector are presented in Annex 11.1.

#### Annex 11.1 Forecast of Expenditures in Agriculture for 2004-2006 (Million Drams)

No	Titles of Functional classification groups, sub-groups and programs	2003				2004				2005			2006			
		<i>Planned</i>				<i>Forecast</i>										
		Current expenditures	Capital expenditures	Lending	Total expenditure	Current expenditures	Capital expenditures	Lending	Total expenditure	Current expenditures	Capital expenditures	Total expenditure	Current expenditures	Capital expenditures	Total expenditure	
2	3	4	5	6	7	8	9	10	11	12	13	14	15			
10.01	PUBLIC ADMINISTRATION IN AGRICULTURAL SECTOR	123.1	0.0	0.0	123.1	173.7	0.0	0.0	173.7	185.0	0.0	185.0	194.9	0.0	194.9	
10.02	SOIL IMPROVEMENT WORKS	53.0	350.0	0.0	403.0	75.0	400.0	0.0	475.0	106.0	855.6	961.6	94.0	855.6	949.6	
	01. Cleaning and repair of the collector-drainage network	0.0	350.0	0.0	350.0	0.0	400.0	0.0	400.0	0.0	400.0	400.0	0.0	400.0	400.0	
	02. State order for works of agro-chemical examination and fertility improvement of soil, implemented by the "Agricultural Chemicalisation Research Station" SNCO	35.0	0.0	0.0	35.0	35.0	0.0	0.0	35.0	35.0	0.0	35.0	35.0	0.0	35.0	
	03. State order for works of determination of the level and quality of subsoil waters, implemented by the "Melioration" SCJSC	18.0	0.0	0.0	18.0	20.0	0.0	0.0	20.0	20.0	0.0	20.0	24.0	0.0	24.0	
	04. Adjustment of irrigation norms and modes of agricultural plants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	51.0	0.0	51.0	35.0	0.0	35.0	
	05. Salt extraction from irrigated land in Ararat plain	0.0	0.0	0.0	0.0	20.0	0.0	0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	
	06. Radical improvement of repeatedly salinated irrigated land in Ararat plain	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	369.1	369.1	0.0	369.1	369.1	
	07. Improvement and watering of natural pastures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	86.5	86.5	0.0	86.5	86.5	
10.04	PLANT PROTECTION	252.7	0.0	0.0	252.7	252.7	0.0	0.0	252.7	252.7	0.0	252.7	469.2	0.0	469.2	
	01. State order implemented by the "Plant Protection Service" SNCO	42.7	0.0	0.0	42.7	42.7	0.0	0.0	42.7	42.7	0.0	42.7	42.7	0.0	42.7	
	02. State order implemented by the "Plant Quarantine Service" SNCO	30.0	0.0	0.0	30.0	30.0	0.0	0.0	30.0	30.0	0.0	30.0	30.0	0.0	30.0	

2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

No	Titles of Functional classification groups, sub-groups and programs	2003				2004				2005			2006		
		<i>Planned</i>				<i>Forecast</i>									
		Current expenditure	Capital expenditures	Lending	Total expenditure	Current expenditure	Capital expenditures	Lending	Total expenditure	Current expenditure	Capital expenditures	Total expenditure	Current expenditure	Capital expenditures	Total expenditure
	03. Plant protection actions	180.0	0.0	0.0	180.0	180.0	0.0	0.0	180.0	180.0	0.0	180.0	396.5	0.0	396.5
10.05	VETERINARY AND ANTI-EPIDEMIC ACTIONS	1 018.5	0.0	0.0	1 018.5	1 058.3	0.0	0.0	1 058.3	1 157.1	0.0	1 157.1	1 263.8	0.0	1 263.8
	01. State order implemented by the "Republican Anti-Epidemic and Diagnostic Centre" SNCO	32.3	0.0	0.0	32.3	72.1	0.0	0.0	72.1	72.1	0.0	72.1	72.1	0.0	72.1
	02. Acquisition of accessories for vaccination and for other anti-epidemic actions	697.2	0.0	0.0	697.2	697.2	0.0	0.0	697.2	767.0	0.0	767.0	843.0	0.0	843.0
	03. Anti-epidemic vaccinations	277.8	0.0	0.0	277.8	277.8	0.0	0.0	277.8	306.8	0.0	306.8	337.5	0.0	337.5
	04. Quarantine restrictions imposed by the Veterinary Police Platoon of the Ministry of Internal Affairs	11.3	0.0	0.0	11.3	11.3	0.0	0.0	11.3	11.3	0.0	11.3	11.3	0.0	11.3
10.07	LIVESTOCK BREEDING, SEED-FARMING, AND OTHER PROGRAMMES	909.5	2 323.2	901.6	4 134.3	1 329.9	2 524.6	589.3	4 443.8	207.8	0.0	207.8	258.9	0.0	258.9
	01. Implementation of special activities	1.0	0.0	0.0	1.0	1.0	0.0	0.0	1.0	1.0	0.0	1.0	1.0	0.0	1.0
	02. State order for seed quality examination and state sort-expertise, implemented by the "Centre for Expert Analysis of Selection Attainments and Examination of Seed Quality" SCJSC	25.0	0.0	0.0	25.0	25.0	0.0	0.0	25.0	25.0	0.0	25.0	25.0	0.0	25.0
	03. Approbation of seed plants	0.3	0.0	0.0	0.3	0.3	0.0	0.0	0.3	0.3	0.0	0.3	0.3	0.0	0.3
	04. State order for hydro meteorological activities, implemented by the "Hydro-Meteorological Service" SCJSC	2.2	0.0	0.0	2.2	2.2	0.0	0.0	2.2	2.2	0.0	2.2	2.2	0.0	2.2
	05 Artificial insemination activities	11.5	0.0	0.0	11.5	41.5	0.0	0.0	41.5	41.5	0.0	41.5	41.5	0.0	41.5
	06. Supporting collection of agriculture data	30.0	0.0	0.0	30.0	30.0	0.0	0.0	30.0	30.0	0.0	30.0	30.0	0.0	30.0
	07. Agricultural insurance risk assessment program	0.0	0.0	0.0	0.0	40.0	0.0	0.0	40.0	0.0	0.0	0.0	0.0	0.0	0.0
	08. Numbering and registration of agricultural animals in the Republic of Armenia	0.0	0.0	0.0	0.0	85.0	0.0	0.0	85.0	107.8	0.0	107.8	159.0	0.0	159.0
	09. Agricultural Reforms Support programme implemented through the World Bank assistance	417.4	375.3	0.0	792.7	751.4	0.0	0.0	751.4	0.0	0.0	0.0	0.0	0.0	0.0
	10. Agricultural Services Programme implemented through assistance of the International Fund for Agricultural Development	422.1	1 947.9	901.6	3 271.6	353.6	2 524.6	589.3	3 467.5	0.0	0.0	0.0	0.0	0.0	0.0
	<b>TOTAL</b>	<b>2 356.8</b>	<b>2 673.2</b>	<b>901.6</b>	<b>5 931.6</b>	<b>2 889.7</b>	<b>2 924.6</b>	<b>589.3</b>	<b>6 403.6</b>	<b>1 908.6</b>	<b>855.6</b>	<b>2 764.2</b>	<b>2 280.9</b>	<b>855.6</b>	<b>3 136.5</b>

## **CHAPTER 12. NATURAL ENVIRONMENT PROTECTION**

### **SITUATIONAL OVERVIEW**

Natural environment protection issues deal directly with the basic problems of the country's economic and social development.

All economic activities impact on the natural environment. The challenge of natural environment protection is to achieve an optimal reduction in the harmful impact of economic activities on the environment – on atmosphere, water, soil, the earth's crust, plant life, and animal life, supporting the preservation of the environment and human health.

Economic activity has a number of adverse impacts on the environment that require urgent action all over the world. This includes global climatic changes, erosion of the ozone layer, trans-border pollution of air and waters, the trans-border impact of industrial accidents, soil degradation (desertification, salinisation, erosion, etc) and the risk of bio-diversity loss.

Attention should also be paid to dangerous chemicals, persistent organic pollutants, industrial waste generated in production processes, as well as to domestic waste issuing from human activities, which are among the main sources of pollution and should be seriously considered by the Government.

Sustainable development of society requires a balance between the utilisation and protection of the natural environment. The existence of a relevant administration system, a high standard of civil consciousness, relevant legislative framework and compliance with laws is required for the supervision and regulation of natural resource utilisation and protection in the country. In recent years, the sector has been developing within the scope of opportunities provided by budgetary allocations and by grants from international financial / environmental organisations. Its activities have been targeted at:

- (i) Prevention and/or reduction of further environmental pollution;
- (ii) Preservation of bio-diversity;
- (iii) Assuring required reproduction volumes of recoverable resources;
- (iv) Assuring reasonable and efficient utilisation of non-recoverable resources.

The sector has been developing in line with the country's economy and in accordance with the reforms implemented in almost all sectors of the economy. Abrupt changes in political and social-economic systems, along with positive achievements (legislation, including natural environment protection legal statements, formation of the basic elements of democratic institutions and of the market economy) have resulted in unprecedented social and economic losses, and in over-employment of natural resources. The following remarkable achievements have been made in natural environment protection in recent years:

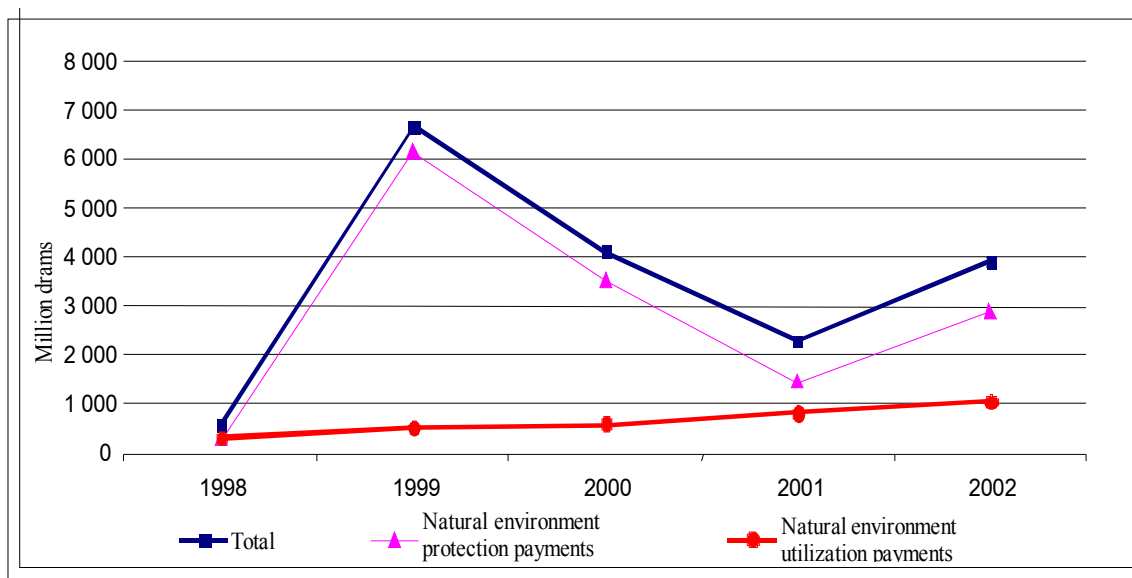
- (i) Since 1999, termination of water discharge from Lake Sevan for energy generation purposes;
- (ii) Since 2002, prohibition of production, usage and import of ethylated gasoline;
- (iii) Prohibition of production and usage of a number of substances deemed to be persistent organic pollutants;
- (iv) Limitations on emission of hothouse gases, sulphur, nitrogen oxides, ammonia and vaporizing organic compounds;
- (v) Attaining sustainable development, formation of national water committees and water basin administration bodies.

Over the last two years (2002-2003), the following basic indicators have characterised the sector:

- (i) In order to improve the legislative framework for natural environmental protection and utilisation, the Ministry of Natural Environment Protection has elaborated more than eighty drafts of important laws, by-laws and other normative statements. In order to ensure the application of the Water Code and the Code of Earth's Crust, during the past eight months of 2003 more than ten by-laws have been elaborated and approved by the Government.
- (ii) Within the framework of administrative reforms in the Republic of Armenia, formation of the administrative system of the Ministry has been completed. It currently consists of the Ministry's Staff and 7 separated divisions (five agencies and two inspectorates), 13 state non-commercial organisations and 13 fully state-owned joint-stock companies.
- (iii) Within the framework of the 2002-2003 annual action plan for restoration, preservation, reproduction and utilisation of the ecological system of Lake Sevan, the following actions have been taken:
  - Since the end year of 2001, there has been a gradual raise in the level of Lake Sevan, which has now reached its 1994 level;

- Fish reserves of Lake Sevan have been replenished, by releasing 175,000 thousands of “gegharkuni” small fish (each at least 1.5 grams) into the Lake;
  - Other actions and programmes aimed at the preservation of the Sevan National Park and the efficient utilisation of its areas have been implemented.
- (iv) As a result of reforestation, forest-preservation, forest-protection and forestry works implemented by the “Hayantar” enterprise:
- 445.4 hectares of forests have been planted;
  - Forest replenishment works on around 500 hectares have been implemented;
  - 2,149,000 of young plants have been grown.
- (v) Due to the improved efficiency of inspection activities, budget receipts from natural environment protection and utilisation payments have significantly increased.

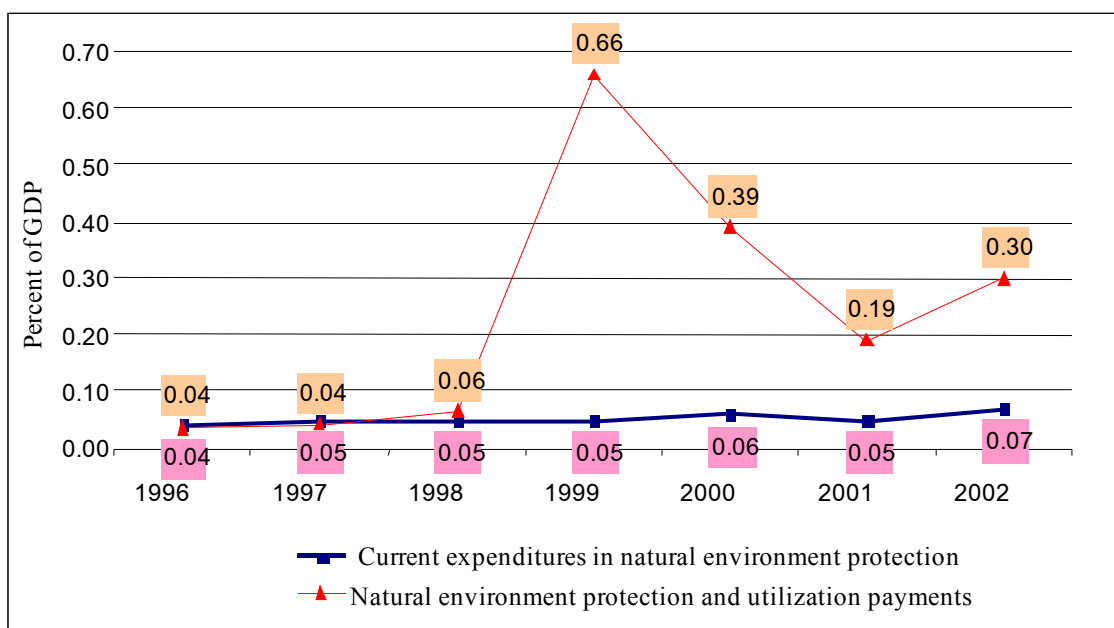
**Chart 12.1. Dynamics in State Budget Revenues from Natural Environment Protection and Utilisation Payments, 1998-2002 (Million Drams)**



- (vi) As a result of geological-prospecting works that examine the earth's crust, there has been:
- Assured estimated resources (by P1, P2, and P3 categories) have been calculated at: gold – 254 tonnes, silver – 1,088 tonnes, copper – 3,911,000 tonnes, lead – 1,019.0 tonnes, zinc – 1,533.0 tons, and molybdenum – 251,000 tonnes;

- Due to exploratory works in Artashat Hollow, there are explored and estimated operational resources of underground potable water of category C – 1,027 litres/second or 88,698 cubic meters/day;
  - Due to exploratory works in the upper-stream basin of the Hrazdan River at Meghradzor plot, the following operational resources of underground potable water have been identified: of category B – 48 litres/second, and of category C1 – 24 litres/second. In addition, at Marmarik plot of the same basin it has been calculated that there are operational resources of underground potable water of category C1 – 48.2 litres/second, and of category C2 – 112.8 litres/second.
- (vii) As a result of inspection activities implemented by the Nuclear Power Utilisation and Radiation Security Inspectorate, safe operation of the Armenian Nuclear Power Station has been assured.
- (viii) As a result of optimisation and rationalisation of the system of Armenian Hydro-Meteorological Service, 36 meteorological, 7 river-basin hydrological and 9 specialised stations are operating, as well as 3 agro-meteorological, 88 hydrological and 5 lake observation posts. Due to the work of the above mentioned units, the population of the country, its authorities, interested parties and enterprises have been provided with information on the actual and forecasted weather, with references on hydro-meteorological, helio-geophysical, and background-gamma radiation status, and with consultations and warnings about dangerous and disastrous hydro-meteorological phenomena, including meteorological service of air flights.

**Chart 12.2. Dynamics of Current Expenditures from Natural Environment Protection, and of State Budget Revenues from Natural Environment Protection and Utilisation Payments, 1996-2002 (Percent of GDP)**



- (ix) The Agency of Mineral Reserves has conducted state expert analysis of more than 30 mines; as a result, there have been approved balance reserves of gold of category C1 + C2 – 8,889.7 kilograms, silver of category C1 + C2 – 14.5 tons, potable water of category B – 18.8 litres/ second, mineral water of category B – 1.0 litres/ second, non-metallic mineral resources of category A + B + C1 – 16,595.7 thousand cubic meters.

Only a certain portion of natural environment protection and utilisation payments to the state budget has been directed to solving the natural environment problems of the country.

#### **MAIN EXPENDITURE PRIORITIES IN NATURAL ENVIRONMENT PROTECTION FOR 2004-2006 MTEF PERIOD**

For the period of 2004-2006, the priority directions of development of the sector will be as follows:

- (i) Assuring public administration for protecting the environment – atmosphere, water, soil, earth's crust, plant life, and animal life, including preservation of forests and specially protected natural areas, as well as of reasonable utilisation and reproduction of natural resources;
- (ii) Observations of environmental and hydro-meteorological phenomena;
- (iii) Exploration of the earth's crust.

Priority programmes aimed at protecting the environment – atmosphere, water, soil, earth's crust, plant life, and animal life, including preservation of forests and specially

protected natural areas, as well as the reasonable utilisation and reproduction of natural resources, will be the following:

Natural Environment Protection

This programme stipulates for implementation of the “Replenishment of Fish Resources” project, so as to assure the realisation of activities and sub-programmes envisaged within the framework of the complex programme for Lake Sevan, pursuant to execution of the ROA Law “On Lake Sevan”.

The programme provides for reproduction of valuable and rare sorts of fish in Lake Sevan, for which purpose a total of 30.0 million drams will be allocated over 2004-2006, 10.0 million drams annually.

Atmosphere Preservation

For the planned period, there will be a focus on the development and implementation of by-laws and other legal and methodological statements, programmes and drafts, including the introduction of technological and territorial norm-setting mechanisms for harmful wastes from stationary sources of pollution. For this purpose, 3.0 million drams will be allocated from the budget over 2004-2005.

Bio-Diversity and Soil Preservation

For the period of 2004-2006, the activities of this sector will be directed both to the existing five priority programmes (those for preservation of specially protected natural areas), and to implementation of new programmes. In particular, they will include:

- (i) Elaboration and implementation of the programme for establishment of the “Jermuk” national park;
- (ii) Elaboration and implementation of the programme for establishment of the “Kirantz” natural park;
- (iii) Establishment of the “Khor Virap” reserve;
- (iv) Establishment of the “Arpi” national park;
- (v) Establishment of the “Vorotan” natural park;
- (vi) Establishment of an informational database on the system of bio-diversity and on administration of specially protected natural areas in Armenia;
- (vii) Implementation of works for reviewing, boundary adjustment and mapping of specially protected natural areas;
- (viii) Compilation of drafts for zoning of specially protected natural areas;
- (ix) Inventory of natural monuments, and implementation of works for approving their certification lists;
- (x) Establishment of a cadastre of specially protected natural areas in Armenia;



- (xi) Technical assistance (including technical re-equipment) of the “Shikahogh” and “Xosrovi Antar” reserves;
- (xii) Restoration of reserves and national park museums, as centres for ecological education and awareness.

Public spending on this programme will be 203.2 million drams in 2005, 288.0 million drams in 2005 and 269.1 million drams in 2006.

#### Forestry

Over the MTEF period, the priority will be implementation of certain tasks within the framework of the Natural Resource Management and Poverty Reduction Strategy. Those tasks include restoration of felled forest sectors and forestation of new areas, development and re-equipment of the “Hayantar” enterprise and of the National Forestry Service, retraining of personnel, and technical re-equipment of the system.

The following works have been planned for 2004-2006:

- (i) Forest-preservation works targeted at the improvement of forests in the Republic, including:
  - Treatment of the mineralised layers of soil;
  - Enrichment of mineralised layers of soil;
  - Construction, renovation and maintenance of fire-prevention roads;
- (ii) Forest-protection works, for fighting against pests and diseases in forests, including:
  - Forest-pathology works;
  - Over-ground activities;
  - Air-chemical activities for fighting against diseases and pests on 15,000 hectares in the Syunik region;
- (iii) Reforestation works directed to improvement of the present negative situation of forests in the country, including:
  - Sowing and planting of forests;
  - One-time cultivation of forest plants;
  - Cultivation of forest plants (irrigation);
  - Replenishment of forest plants.
- (iv) Forest-growing works
  - Financing is provided to carry out an inventory of forests in the country, forest development works will be implemented on more than 60.000 hectares.

Expenditure on forestry (excluding loan resources) will show an upward trend and will increase by 8.8% in 2004, 38.7% in 2005, and by 28.4% in 2006.

Priority programmes for observing the environment and hydro-meteorological phenomena will be the following:

*Hydro-Meteorological and Environmental Monitoring*

Activities in the sphere of hydrometeorology will be directed to:

- (i) Assuring hydro-meteorological, agro-meteorological, hydrological, radio-locating, actinometrical, ozonometrical and aerological observations in compliance with international standards;
- (ii) Examination of climatic changes, and climate monitoring;
- (iii) Radiation monitoring in the territory of the Republic;
- (iv) Implementation of climatic change examinations,
- (v) Collection of hydro-meteorological data, compilation of forecasts and warnings about disastrous phenomena;
- (vi) Provision of hydro-meteorological, radiation and helio-geophysical information to authorities, defence forces, energy sector, transport sector, and to other interested parties;
- (vii) Technical re-equipment of hydro-meteorological stations.

The programme will be allocated 229.5 million drams in both 2004 and 2005, and 251.9 million drams in 2006.

Environmental monitoring activities will be focused on developing the national system to monitor environmental status, and harmful influences on it. Along with strengthening the traditional approaches to monitoring, special attention will be paid to establishing and developing monitoring in areas, which have so far been left out of its scope. This includes the monitoring of harmful human, and other harmful, influences, as well as their results, on the earth's crust, soil, underground waters, plant life and animal life, forests, specially protected natural areas and objects, and – in general – on the biosphere and its components, agricultural plants and animals, materials, buildings, and other man-made objects. These activities will be targeted at assuring the ecological security of the Republic, as well as the establishment of the informational framework necessary for administration.

For that purpose, the following activities will be implemented within the planned period:

- (i) The monitoring of atmospheric pollution in inhabited localities of Armenia, and of the environmental impact of pollution, as well as of the basic pollutant

substances, in volumes and observation types stipulated by international and inter-state agreements;

- (ii) Monitoring of pollution and other harmful influences on the surface water of Armenia's rivers, lakes, and reservoirs (particularly on Lake Sevan).

Public spending on this programme for 2004-2006 will be 14.8 million drams.

*Exploration and Preservation of the Earth's Crust*

For the planned period, geological explorations of the earth's crust will be focused on:

- (i) Gold prospecting works, summarising and preserving geological information on areas, for which there is still incomplete geological information, but are promising in terms of mineral extraction. Within the programme framework, a number of important geological-prospecting exploratory activities will be summarised, and interim reports will be compiled.
- (ii) Discovery of new manifestations of minerals in the territory of the Republic, clarification of a variety of important geological issues, conduction of geological, hydro-geological, geophysical and geo-chemical explorations and mapping, including:
  - Implementation of activities to preserve the earth's crust, which is of great importance for the Republic. These activities include inventory (certification) of hydro-geological mines, examinations of under-ground water modes and status, permanent observations of exogenous geological processes (landslides), as well as the establishment of a computerised informational database on solid minerals and underground water reservoirs in the Republic of Armenia;
  - Restoration of the activities of the geological supervision service, which are necessary for the preservation and efficient utilisation of the earth's crust (geological examinations, exploitation of mines) and improvement of the legislative framework for that sector. This includes the development of the rules for geological supervision and of respective methodological / instructional documents, strengthening of the geological supervision system and improving its efficiency, implementation of the necessary supervisory work for assuring completeness and reliability of information on mineral reserves and of geological data retrieved in the course of exploitation of the earth' crust;
  - Improving the efficiency of the activities of the Geological Fund in order to assure implementation of its basic functions, including those of running mines

and maintaining the cadastre of mineral reserve balances, undertaking geological explorations, collection and storage of information on mines, their reserves, and on the earth's crust.

For implementation of the above-mentioned works, a total of 87.0 million drams will be allocated over 2004-2006, 29.0 million drams annually.

### **MAIN OBJECTIVES OF EXPENDITURES ALLOCATED TO NATURAL ENVIRONMENT PROTECTION FOR 2004-2006**

The main objectives of development will be as follows:

- (i) Prevention or reduction of negative environmental impacts – on the atmosphere, water, soil, earth's crust, plant life and animal life, including forests and specially protected natural areas, as well as the formulation and implementation of a state policy for reasonable utilisation and reproduction of natural resources;
- (ii) Assuring public administration of the preservation of atmosphere, water, soil, the earth's crust, plant life and animal life, including forests and specially protected natural areas, as well as the reasonable utilisation and reproduction of natural resources;
- (iii) Assuring the safe administration of dangerous chemical substances and wastes produced and used in the territory of Armenia;
- (iv) Assuring the observation, examination and forecasting of environmental and hydro-meteorological phenomena;
- (v) Assuring state expert examination of environmental impacts;
- (vi) Assuring preservation and efficient utilisation of the earth's crust.

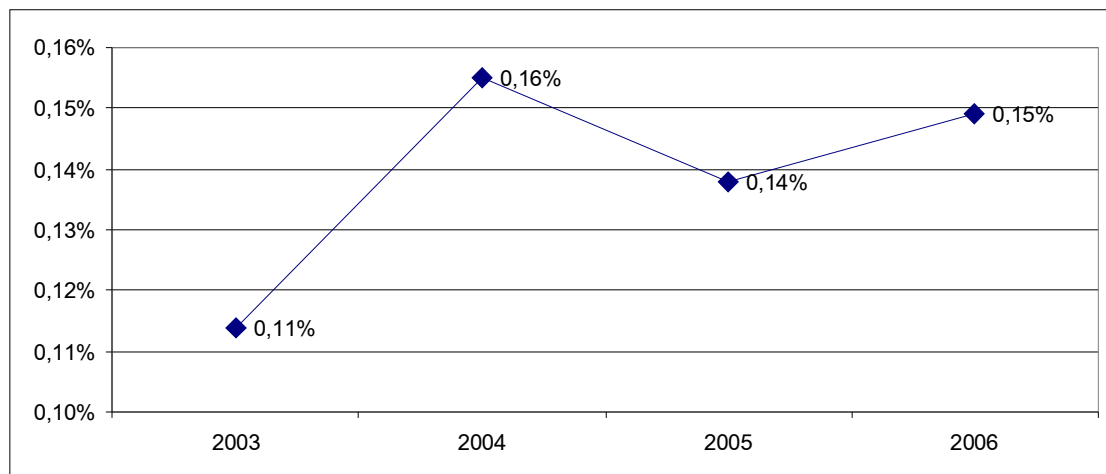
### **EXPENDITURE DRIVERS FOR 2004-2006 MTEF PERIOD**

Expenditure on natural environment protection programmes will increase by 49.1% (821.9 million drams) in 2004, and by 18.0% (435.5 million drams) in 2006. The increase in expenditure is driven by the increased number of environmental programmes, based on state policy and the basic priorities in the sector (mainly financed by loan resources and new programmes; as prescribed by the Government's Protocol Decree No 54 "On the National Programme of State Policy and of Actions for Development of Specially Protected Natural Areas of Armenia", dated December 26, 2002). Expenditures will decrease by 3.1% in 2005, due to the reduction of loan resources.

### **PLANNED EXPENDITURES**

The share of public expenditure on natural environment protection within GDP over 2004-2006 is presented in the chart below:

**Chart 12.3. Public Expenditure in Natural Environment Protection for 2003-2006  
(Percent of GDP)**



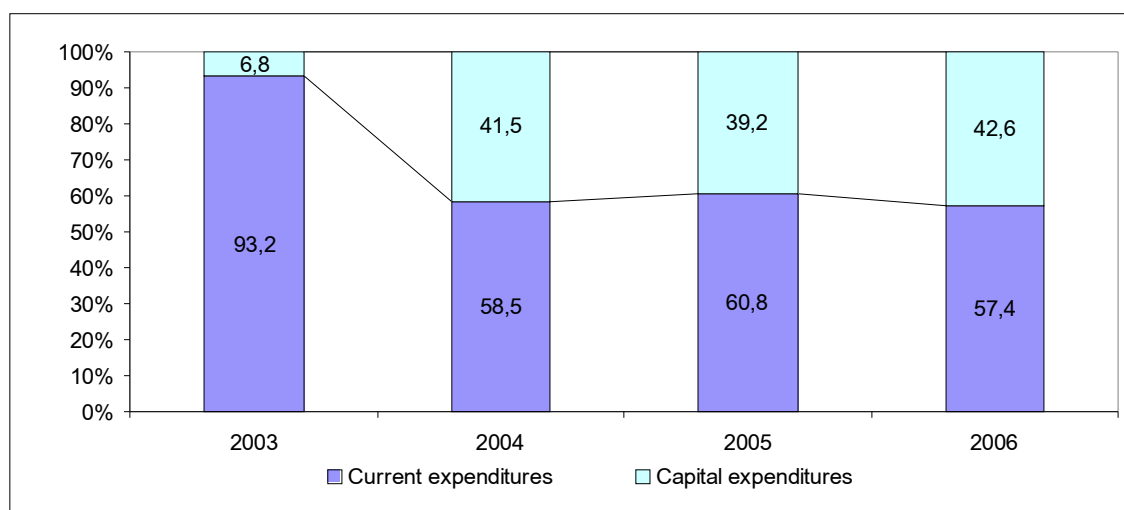
The medium-term forecast of the distribution of budget resources by the Ministry of Natural Environment Protection, over 2004-2006, is illustrated by the following indicators:

**Table 12.1. Forecast of Expenditure in Natural Environment Protection Programmes for 2004-2006 (Million Drams)**

Title of programme	2004	2005	2006
<i>A. Current expenditures</i>	1 460.0	1 470.	1 639.8
		5	
1. Central administration apparatus / maintenance	408.3	434.2	457.3
2. Environmental protection programmes	1 051.7	1 036.	1 182.5
		3	
<i>B. Capital expenditures</i>	1 036.5	948.8	1215
1. Environmental protection programmes	1 036.5	948.8	1 215.0
<b>TOTAL</b>	<b>2 497.0</b>	<b>2 419.</b>	<b>2 854.8</b>
		3	

Below is presented the distribution of total spending on natural environment protection, by current and capital expenditures:

**Chart 12.4. Structure of Public Expenditure in Natural Environment Protection Programmes over 2003-2006, by Main Groups of Economic Classification (Percent of Total Expenditure in Sector)**



Expenditure over the MTEF period, by expenditure programme, is briefly presented in Annex 12.1.

#### Projects Implemented through External Financing

The World Bank financed project, the Natural Resource Management and Poverty Reduction Programme, will be implemented in the sector of natural environment protection over 2004-2006. The programme will be allocated 1,466.0 million drams in 2004, 1,232.3 million drams in 2005, and 1,592.2 million drams in 2006.

The programme will be aimed at improving natural resource management through reforms to the administrative system, as well as to the reduction of rural poverty in the mountainous areas of the Tavush and Gegharkunik regions. At regional and global levels, the programme will contribute to improving and strengthening the ecological system pertinent to this region of the South Caucasus. It will also produce long-term fiscal benefits, as a result of increased local revenues and decreased allocations from local budgets to social security expenditures. Among the social benefits, there will be an increase in local revenues, additional jobs, and larger incomes generated through forest management.

In the coming years, activities will be implemented in the Tavush and Gegharkunik regions for renovation of water-accumulation basins, construction of a network of organic gas production, construction of watering stations in distant pastures, reconstruction of the existing field roads, stabilisation of landslides, prevention of soil erosion, and provision of small grants for planting, reforestation, improvement and restoration of community hayfields, development of beekeeping, and for other purposes.

Technical and advisory assistance will be provided for management of the “Hayantar” SCJSC, “Sevan” and “Dilijan” national parks, as well as for the preservation of bio-diversity. It has also been planned to construct new visitor and information centres in Dilijan and Sevan, to reconstruct headquarter offices, to renovate central and local offices, and to put fences and gates around areas of valuable bio-diversity.

These activities will be accompanied with provision of advisory services, development of management plans, as well as holding seminars and discussions.

### Annex 12.1. Forecast of Expenditures in Natural Environment Protection for 2004-2006 (Million Drams)

No	Titles of functional classification groups, sub-groups and programs	2003	2004	2005	2006
		<i>Planned</i>	<i>Forecast</i>		
		<i>Million drams</i>			
10.01	Public administration on natural environment protection	291.9	408.3	434.2	457.3
	<i>Current expenditures</i>	272.9	408.3	434.2	457.3
	<i>Capital expenditures</i>	19.0	0.0	0.0	0.0
10.03	Fishery, water economy	10.0	10.0	10.0	10.0
	<i>Current expenditures</i>	10.0	10.0	10.0	10.0
	<i>Capital expenditures</i>	0.0	0.0	0.0	0.0
10.06	Forestry	114.0	124.0	172.0	221.0
	<i>Current expenditures</i>	114.0	124.0	172.0	221.0
	<i>Capital expenditures</i>	0.0	0.0	0.0	0.0
11.02	Mining and geology	29.0	29.0	29.0	29.0
	<i>Current expenditures</i>	0.0	4.0	4.0	4.0
	<i>Capital expenditures</i>	29.0	25.0	25.0	25.0
11.05	Specially protected natural areas	196.8	203.2	288.0	269.1
	<i>Current expenditures</i>	174.8	180.5	205.2	205.2
	<i>Capital expenditures</i>	22.0	22.7	82.8	63.9
11.06	Other environmental activities	4.0	27.0	24.3	24.3
	<i>Current expenditures</i>	4.0	25.1	22.4	22.4
	<i>Capital expenditures</i>	0.0	1.9	1.9	1.9
13.05	Other general economic services	255.6	229.5	229.5	251.9
	<i>Current expenditures</i>	255.6	229.5	229.5	229.5
	<i>Capital expenditures</i>	0.0	0.0	0.0	22.4
11.06	Natural resource management and poverty reduction programme	773.8	1 466.1	1 232.3	1 592.2
	<i>Current expenditures</i>	730.2	479.1	393.2	490.4
	<i>Capital expenditures</i>	43.6	987.0	839.1	1 101.8
	<b>TOTAL</b>	<b>1 675.2</b>	<b>2 497.1</b>	<b>2 419.3</b>	<b>2 854.8</b>
	<i>Current expenditures</i>	1 561.6	1 460.6	1 470.5	1 639.9
	<i>Capital expenditures</i>	113.6	1 036.6	948.8	1 214.9
		<i>Percent of total</i>			
10.01	Public administration in natural environment protection	17.4	16.4	17.9	16.0
10.03	Fishery, water economy	0.6	0.4	0.4	0.4
10.06	Forestry	6.8	5.0	7.1	7.7
11.02	Mining and geology	1.7	1.2	1.2	1.0
11.05	Specially protected natural areas	11.8	8.1	11.9	9.4
11.06	Other environmental activities	0.2	1.1	1.0	0.9
13.05	Other general economic services	15.3	9.2	9.5	8.8
11.06	Natural resource management and poverty reduction programme	46.2	58.7	50.9	55.8
	<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	<i>Current expenditures</i>	93.2	58.5	60.8	57.4
	<i>Capital expenditures</i>	6.8	41.5	39.2	42.6
		<i>Percentage change, compared with the previous year</i>			
10.01	Public administration in natural environment protection		39.9	6.3	5.3
10.03	Fishery, water economy		0.0	0.0	0.0
10.06	Forestry		8.8	38.7	28.5
11.02	Mining and geology		0.0	0.0	0.0
11.05	Specially protected natural areas		3.3	41.7	-6.6
11.06	Other environmental activities		568.3	-10.0	0.0
13.05	Other general economic services		-10.2	0.0	9.8
11.06	Natural resource management and poverty reduction programme		89.5	-15.9	29.2
	<b>TOTAL</b>		<b>49.1</b>	<b>-3.1</b>	<b>18.0</b>
	<i>Current expenditures</i>		-6.5	0.7	11.5
	<i>Capital expenditures</i>		812.5	-8.5	28.0





## **CHAPTER 13 TRANSPORT AND COMMUNICATIONS**

### **SITUATIONAL OVERVIEW**

The main focus of the 2004-2006 medium-term expenditure framework for the transport and communications sector is as follows:

- (i) Roads;
- (ii) Communication and telecommunication;
- (iii) Railway transportation.

#### Roads

The total length of general use motor-road network of the Republic of Armenia is 7,800 kilometres, of which 3,360 kilometres under the Ministry of Transport and Communication (including 1,560 kilometres of inter-state importance and, 1,800 kilometres of republican importance roads). The other 4,440 kilometres are local and community important motor roads.

The first pre-requisite for keeping the roads in good order is consistent implementation of necessary renovation and maintenance. However, during the 1990's almost no maintenance was done; with only some incomplete road maintenance undertaken only on highways, and this has resulted in a significant deterioration of the roads. The road destruction has also been exacerbated by the unprecedented increase of heavy truck traffic throughout the country.

Analysis of the status of the road network, traffic intensity and vehicle operation expenditure has shown that the loss incurred from vehicle operation during the 1990's has amounted to almost US\$152 million annually.

Examinations conducted in 1994 by the British company "Tecenkon" and by World Bank specialists, within the framework of the TACIS programme, have concluded that the roads have been deteriorating at an annual rate of between 23% and 25%. Thus, as shown by calculations, the average per kilometre cost of road restoration of US\$13,500 in 1994 has increased to US\$39,293 in 1997.

In comparison with the main road network, for which a number of restoration and renovation programmes have been implemented, the networks of republican, local and community roads are in a desperate condition. Due to the extreme insufficiency of resources allocated to road restoration in recent years, the whole road network is in disrepair.

The Ministry of Transport and Communication also has responsibility for 2,711 road bridges (with a total length of 22.6 kilometres) and 95 railway bridges. Of these, 2,155 of

the road bridges are in technically insufficient condition, and another 23 are damaged and in need of emergency repair.

Of the 543 road bridge constructions in the regions of the Republic, 84 are in technically insufficient condition, and another 47 are damaged and need emergency repair.

*Communication and Telecommunication*

The reception zone of the Public Television of Armenia (the PTA) covers almost 98% of the territory of the country. This level has been reached over 20 years, by gradually expanding the reception zone. The PTA program is communicated through radio-relay wires with a total length of 14,20 kilometres, and is broadcast by 0.0001+5 kilowatt powered 117 antennas and supplementary antennas.

These technological devices have been in use for 10 to 20 years and, therefore, have depreciated and become obsolete, with the majority now being worthless.

The opening of the satellite transmitting station of Yerevan in 1999 has enabled broadcasting of the PTA programme across the whole territory of Armenia, as well as outside of the country. This has required the construction of 16 satellite television stations in difficult-to-access localities of the Republic.

Despite this, a number of localities in Armenia are still partially or totally deprived of the opportunity of receiving the PTA programme.

In order to organise broadcasting of the PTA programme in such localities, the Ministry of Transport and Communication has developed the programme “On Actions for Assuring Broadcast of the Public Television Programme in the Territory of the Republic of Armenia”, approved by the Decree No 559 of the Government dated June 21, 2001.

The programme has started in 2001. Activities of the first and the third phases will be accomplished in 2003, and 57 stations will be in operation. The third phase is proposed to finish in 2004, putting into operation another 10 stations.

Construction of satellite receiving and transmitting stations in the Nyuvad, Lichk and Tashtun communities of Syunik region, and in Movsesgegh, Verin Karmiraghbyur and Berkaber communities of Tavush region are also expected to be completed in 2003.

The programme of the Public Radio of Armenia (hereinafter: the PRA) in the ultra-short wave frequency is broadcast in Yerevan, Gyumri, and Sevan Canyon. It covers 65% of the population. The programme is broadcasted by 2-4 kilowatt powered three radio-antennas transmitting in the 66 to 68 megahertz frequency.

The PRA program in the ultra-short wave frequency is broadcasted in Vayotz Dzor, Syunik, Tavush, and Lori regions.

Radio programmes all over the world are currently transmitted in the 87.5-108 megahertz frequency, and radio receivers are mainly designed for working in that frequency. In order to assure ultra-short wave broadcasts of the PRA programme in the whole territory of the Republic, the Ministry of Transport and Communication has developed a programme, approved by the Government's Decree No 636 dated July 12, 2001.

In order to enable the broadcast of the PRA programme in the territory of Armenia, it is planned to install 50-1,000 watt powered 17 radio-antennas in operating radio-relay stations.

### **KEY EXPENDITURE OBJECTIVES AND PRIORITIES**

In the transportation sector, the policy for 2004-2006 will be focused on the efficient utilisation of the resources of the existing road network (railway, motor roads) for intra-republican and inter-state transportation needs. For this purpose, during 2004-2006, the construction, capital repair, reconstruction, and maintenance of roads of vital and strategic importance for the Republic will be undertaken. The work will be financed by the State Budget, the World Bank, other lending organisations, and the "Lincy" foundation. Capital repair of inter-state and republican roads will be implemented in the road sections, which have been destroyed due to long years of exploitation, have become difficult-to-traverse and even dangerous. Current pit-repair of roads and winter maintenance works will make the traffic smoother and safer.

In order to assure the uninterrupted and efficient operation of railway transport, repair works of railway tracks, railway bridges and other structures, as well as the restoration and modernisation of the energy supply and communication systems, and renovation of locomotives and cars will be continued. Thus, the technical condition of railways, as well as the condition and safety of rail transportation, will be significantly improved, and trains will be able to run at a faster rate.

In the communications sector, the technical re-equipment and modernisation of the postal and telecommunication networks will be continued, and the scope of services provided to the population will expand significantly. The third stage of activities for assuring the broadcast of television programmes in the territory of Armenia will be accomplished, thus enabling high-quality and uninterrupted broadcasting throughout the country, and new satellite receiving stations will be constructed for receipt of television programmes. Also, it has been envisaged to expand broadcast of the PRA program in the ultra-short wave frequency.

The basic priorities of expenditure policy in the sector of transport and communication over 2004-2006 will be as follows:

- (i) Implementation of maintenance and capital repairs of important roads;
- (ii) Capital repair of transportation infrastructure;
- (iii) Implementation of activities assuring broadcast of the PTA and of the PRA programmes;
- (iv) Assuring regular activities of the Yerevan Metro.

#### **MAJOR PROGRAMMES TO BE IMPLEMENTED**

The programme for maintenance, operation, and capital repair of important roads plans for the restoration of 691.5 kilometres of roading. In particular, important roads, and road structures, which have been destroyed by river floods in 2003, will be restored in 2004. In total, around 100 kilometres of important motor roads will be repaired. In 2005, 24.5 kilometres of inter-state and 300 kilometres of republican roads will be repaired, and in 2006 these indicators will be 35 kilometres and 232 kilometres of inter-state and republican roads, respectively.

Due to implementation of these works over 2004-2006, communication between the Capital, regional centres and other localities of the country will be improved, and travelling costs will decline.

The programme for capital repair of transportation infrastructure plans for capital repairs of damaged road bridges needing emergency repair, as approved by the Government's Decree No 591 dated July 02, 2001. The programme provides for detailed examination of 70 damaged bridges on important motor roads (including 17 bridges on inter-state and republican roads) and of railway bridges, along with the preparation of design and estimation documents.

As the result of the implementation of this programme, Armenia's road structures will be of a high standard of operational safety for the next couple of decades.

Restoration of railway and road bridge constructions will enable regular and uninterrupted transportation of both domestic and transit goods and passengers.

Due to the programme implementation, the structures of Armenia's railway and road networks will be reliable, with their operational technical indicators meeting the present normative requirements.

Improvement of the road infrastructure will enable regular transport links both throughout the region and between distant and border regions of the country, contributing to their development.

The programme for activities assuring broadcast of the PTA programme will be accomplished in 2004, thus enabling high-quality and uninterrupted broadcasting

throughout the country, and new satellite receiving and transmitting stations will be constructed in 67 localities of the Republic.

Due to the activities for assuring broadcast of radio programmes, the ultra-short wave frequency broadcast of the PRA programme will be expanded, and construction of 17 re-transmitting stations of the PRA will be accomplished.

Subsidies provided under the programme for subsidising the Yerevan Metro will help to replenish its operating deficit. Taking into consideration the special importance of the Metro and its inflexibility as a transportation means, its operations are not forecast to be profitable in the medium-term, thus driving the need of subsidisation. At the same time, relevant actions will be taken within the framework of the Programme for Financial Rehabilitation of Public Services for improving the financial viability of the Metro.

### **SUMMARY OF 2004-2006 EXPENDITURES**

Expenditures in transport and communications, as stipulated by the medium-term expenditure framework, are presented in Annex 13.1.

#### *Expenditure Drivers*

The main factors influencing the 2004-2006 medium-term expenditure framework are as follows:

- (i) The volume of work to be implemented – length of restored roads, quantity of recovered transportation infrastructure, quantity of constructed stations in the communications sector, etc;
- (ii) The type of work to be implemented – maintenance, current repair, capital repair, construction, etc;
- (iii) In terms of the Metro subsidisation – passenger turnover, and fares.

### **LINKAGES WITH PRSP**

The problem of the road network is also crucial to the Poverty Reduction Strategy Paper (PRSP). As defined in the PRSP, the road network impacts on poverty through three basic channels:

- (i) As a factor influencing economic growth;
- (ii) As a factor influencing the distribution of income;
- (iii) As a factor influencing the availability of basic social services.

Given these factors, the PRSP plans for road construction policy to be aimed at restoration and maintenance of the existing road network, by means of gradually increasing allocations to the sector.

### **Annex 13.1. Forecast of Expenditures in Transport and Communications for 2004-2006 (Million Drams)**

2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

No	Titles of functional classification groups, sub-groups and programmes	2004			2005			2006		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
12.01.	Public administration of the sector of transport and communications	252.4	0.0	252.4	267.1	0.0	267.1	279.7	0.0	279.7
12.02.	Subsidising the "Yerevan Metro" SCJSC	697.0	0.0	697.0	697.0	0.0	697.0	697.0	0.0	697.0
12.07.	Maintenance, operation and capital repair of state (inter-state, republican) important motor roads	2 550.0	1 276.4	3 826.4	5 869.4	5 000.0	10 869.4	5 164.2	6 000.0	11 164.2
12.07.	Maintenance, operation and capital repair of regional motor roads	0.0	216.5	216.5	0.0	0.0	0.0	0.0	0.0	0.0
12.07.	Capital repair of transportation infrastructure	0.0	577.0	577.0	0.0	559.0	559.0	0.0	530.4	530.4
12.07.	Transport Programme implemented through World Bank assistance	261.6	7 458.2	7 719.8	17.8	467.2	485.0	0.0	0.0	0.0
12.08.	Activities assuring broadcast of the PTA programme	0.0	24.2	24.2	0.0	0.0	0.0	0.0	0.0	0.0
12.08.	Activities assuring broadcast of the PRA programme	0.0	102.0	102.0	0.0	0.0	0.0	0.0	0.0	0.0
	<b>TOTAL</b>	<b>3 761.1</b>	<b>9 654.2</b>	<b>13 415.3</b>	<b>6 851.3</b>	<b>6 026.2</b>	<b>12 877.5</b>	<b>6 140.9</b>	<b>6 530.4</b>	<b>12 671.3</b>
12.07.	Programme financed by the "Lincy" foundation	0.0	13 668.0	13 668.0	0.0	13 445.0	13 445.0	0.0	13 688.0	13 688.0
	<b>TOTAL EXPENDITURE</b>	<b>3 761.1</b>	<b>23 322.2</b>	<b>27 083.3</b>	<b>6 851.3</b>	<b>19 471.2</b>	<b>26 322.5</b>	<b>6 140.9</b>	<b>20 218.4</b>	<b>26 359.3</b>

**CHAPTER 14. WATER SECTOR****SITUATIONAL OVERVIEW**

The water sector of the Republic of Armenia consists of the irrigation and potable water systems. The annual water consumption for 1999-2002 has amounted to 1.8 to 1.9 billion cubic meters. Around 70% of that volume has been consumed in the irrigation system, and the other 30% in the potable water system.

The physical structure of the water system consists of:

- (i) 80 water reservoirs with a total reserve of 1.35 billion cubic meters;
- (ii) Irrigation channels with a total length of 21,215 kilometres;
- (iii) 403 water-pumping stations;
- (iv) 2,221 deep-laid and artesian wells;
- (v) Water collection and drainage network with a total length of 1,609 kilometres;
- (vi) Drinking water supply network with a total length of 7,215 kilometres, of which 3,988 kilometres is in urban areas, and 3,227 kilometres is in rural areas;
- (vii) Sewerage network with a total length of 2,470 kilometres, of which 2,296 kilometres is in urban areas, and 174 kilometres is in rural areas.

As of 2002, 100% of urban and 36.5% of rural inhabited locations have been included in the centralised water supply system. The centralised water supply has been available for 71% of households (87% in urban and 45% in rural inhabited localities). The average daily duration of the water supply has amounted to 8 hours in urban areas and to 14 hours in rural localities.

The key volume indicators of the drinking water system in recent years are presented in Table 14.1.

**Table 14.1. Key Volume Indicators of Potable Water System, 1999-2002**

Indicators	1999	2000	2001	2002
Water provided to the network (million cubic meters)	438.7	599.9	567.3	538.8
Water provided to customers (million cubic meters)	211.4	212.5	196.0	178.3
Loss (%)	51.8	64.6	65.4	66.9
Number of households included in the system of centralised water supply (thousand)	573.7	575.7	588.3	562.8

The key volume indicators of the irrigation water system in recent years are presented in Table 14.2.

**Table 14.2. Key Volume Indicators of the Irrigation Water System, 1999-2002**

Indicators	1999	2000	2001	2002
Irrigated land (thousand hectares)	160.9	159.5	161.0	122.5
Including, mechanically irrigated land	59.7	54	72.7	30.9
Water provided to the network (million cubic meters)	1 293.8	1 195.0	1 066.5	1200.2
Water provided to customers (million cubic meters)	887.5	832.4	742.5	742.8
Including, mechanically provided water	444.8	406.3	387.7	210.0
Loss (%)	31.4	30.3	30.4	38.1

Public expenditure policy in the water sector has been conducted in two main directions: The first direction has been subsidising companies in the water sector. Subsidies have been provided for replenishment of the operating deficits of irrigation, water supply, and sewerage companies.

The second direction has been implementation of public investment programmes in the water sector. These programmes have been targeted at maintenance and restoration of the physical infrastructure of the water sector. Investment programmes have been mainly financed by loans from international financial organisations.

### **KEY EXPENDITURE OBJECTIVES AND PRIORITIES**

The ultimate objective of water policy is to transferring the activities of the water sector companies onto a commercial basis. The main directions of the policy are as follows:

Financial support policy: For the period of 2004-2006, the Government's financial assistance to the companies of the water system will be in the form of budget subsidies, as well as the implementation of public investment programmes. The Government aims to gradually reduce the subsidies provided to cover the current operational deficits. Thus, the volume of subsidies to be provided to the water companies will decrease by 49.5% in 2004, by 58.2% in 2005, and by 16% in 2006. The investment policy will be targeted at improving the efficiency of the operations of the water companies. Investment programmes will be mainly aimed at reducing operational and maintenance costs of the companies, and reducing water loss, as well as improving their management system.

Tariff policy: The tariff policy will be aimed at assuring consistency between operational and maintenance costs and the level of tariffs. It is planned to bring tariffs in line with operational and maintenance costs in the drinking water system from 2004.<sup>17</sup> In the irrigation system, fully cost-effective tariffs will not be introduced until 2007.

Corporate management improvement policy: Improvement of corporate management in water companies will be one of the main focuses of the Government's policy in the sector. Improvement of corporate management will be aimed at enhancing their financial

<sup>17</sup> It has been envisaged that the "Armenian Water and Sewerage Company" CJSC will introduce new tariffs, linked to operational and maintenance costs, from 1 June 2004. This date reflects the need to install water meters in needy families before introduction of the new tariffs.



viability, through enhancing the efficiency of operational and maintenance expenditure, and improving the level of collections.

### SUMMARY OF 2004-2006 EXPENDITURES

Expenditure on water economy, as stipulated by the medium-term expenditure framework, is presented in Annex 14.1.

#### *Expenditure Drivers*

The main factors influencing the 2004-2006 medium-term expenditure framework are as follows:

- (i) The volume of work to be implemented – length of restored water pipes, quantity of recovered water reservoirs, etc;
- (ii) The type of work to be implemented – maintenance, current repair, capital repair, construction, etc;
- (iii) In terms of subsidising water companies – the volume of provided services, tariffs, collection performance, water loss, etc.

### LINKAGES WITH PRSP

The Poverty Reduction Strategy Paper highlights the improvement of the quality and availability of drinking and irrigation water supply, considering it a factor that directly impacts on the living standards of the population. Examinations conducted over recent years prove that poor families have suffered the most from the decline in the quality of the water supply. The same has been true for the irrigation system, where reductions in the irrigated areas have directly impacted on the level of poverty.

The medium-term expenditure framework is consistent with the policy directions defined in the PRSP. Thus, both the MTEF and the PRSP attach importance to reducing the subsidies provided to water companies, matching current operational and maintenance expenditures with tariffs, restoring the physical structure of the system by means of an appropriate investment policy, and further improving corporate management of the companies.

### Annex 14.1. Forecast of Expenditures in Water Economy for 2004-2006 (Million Drams)

No	Titles of functional classification groups, sub-groups and programmes	2004			2005			2006		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
10.01.	Maintenance of the central apparatus of the Water Economy State Committee	59.9	0.0	59.9	63.8	0.0	63.8	67.2	0.0	67.2
	Water economy programmes, including	117.1	0.0	117.1	117.1	0.0	117.1	117.1	0.0	117.1
08.04.	Maintenance of partially constructed infrastructure	45.5	0.0	45.5	45.5	0.0	45.5	45.5	0.0	45.5
10.03.	Maintenance of the “Vorotan - Arpa - Sevan” SOE	54.5	0.0	54.5	54.5	0.0	54.5	54.5	0.0	54.5
10.03.	Guarding service of water reservoirs	17.1	0.0	17.1	17.1	0.0	17.1	17.1	0.0	17.1
10.07.	Subsidising of irrigation systems	2303.0	0.0	2303.0	1525.0	0.0	1525.0	1326.0	0.0	1326.0

2004-2006 MEDIUM-TERM EXPENDITURE FRAMEWORK

No	Titles of functional classification groups, sub-groups and programmes	2004			2005			2006		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
08.04.	Subsidising of the "Armenian Water and Sewerage Company" CJSC	592.0	0.0	592.0	0.0	0.0	0.0	0.0	0.0	0.0
08.04.	Subsidising of the "Yerevan Water and Sewerage Company" CJSC	756.0	0.0	756.0	0.0	0.0	0.0	0.0	0.0	0.0
08.04.	Capital transfer to the "Armenian Water and Sewerage Company" CJSC for procurement and installation of water metres in entrances of multi-block buildings	0.0	810.0	810.0	0.0	0.0	0.0	0.0	0.0	0.0
10.03.	Operation and repair of the Arpa - Sevan tunnel	0.0	317.4	317.4	0.0	317.4	317.4	0.0	317.4	317.4
08.05.	Anti-flood measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	300.0	300.0
10.03.	Dam Safety Project assisted by the World Bank	389.4	3079.2	3468.6	330.4	2857.3	3187.8	0.0	0.0	0.0
10.02.	Irrigation Systems Development Project assisted by the World Bank	398.0	2928.1	3326.0	398.8	2747.5	3146.4	549.9	3253.4	3803.3
10.02.	Irrigation Systems Development Project II assisted by the World Bank	52.1	290.9	343.0	129.8	711.2	840.9	363.3	2101.1	2464.4
08.04.	Community Water Supply and Sewerage Project assisted by the World Bank	232.2	929.2	1161.4	325.7	1302.8	1628.6	684.5	2737.9	3422.4
08.04.	Community Development Project assisted by the World Bank	770.2	2017.2	2787.4	138.0	281.3	419.3	0.0	0.0	0.0
08.04.	Community Development Project II assisted by the World Bank	458.2	305.4	763.6	662.3	726.0	1388.3	1107.2	1753.0	2860.2
08.04.	Project for improvement of water supply and sewerage systems in several localities of Armavir region	359.0	1060.9	1419.9	496.6	1027.7	1524.3	538.7	1320.8	1859.5
14.06.	Social Investment Fund Project II assisted by the World Bank	0.0	549.8	549.8	0.0	521.7	521.7	0.0	262.5	262.5
	<b>TOTAL</b>	<b>6 487.1</b>	<b>12 288.1</b>	<b>18 775.1</b>	<b>4 187.5</b>	<b>10 492.9</b>	<b>14 680.6</b>	<b>4 753.9</b>	<b>12 046.1</b>	<b>16 800.0</b>

## **CHAPTER 15. MEDIUM-TERM PUBLIC EXPENDITURE POLICY IN OTHER SECTORS**

### **URBAN PLANNING**

#### **SITUATIONAL OVERVIEW**

The 2004-2006 medium-term expenditure framework in urban planning has been developed on the basis of the Constitution of the Republic of Armenia, of the ROA Law “On Urban Planning”, of the Decree of the ROA Government dated June 17, 2003 “On Approving the Action Plan of the Government of the Republic of Armenia”, as well as of other relevant legislative and legal statements.

The development of the 2004-2006 medium-term expenditure framework in urban planning has been based on the principles of developing the documentary base of urban planning, improving the normative and technical framework, enhancing the housing conditions of the socially vulnerable and homeless (due to natural disasters), and reducing poverty.

Urban planning is a strategically important sector for every nation. Developing this sector will substantially contribute to the solution of many basic problems faced by the state.

In this section, only programmes relating to capital construction, construction repair works, and formation of the documentary base of urban planning are presented. Other programmes relating to this sector, such as the programme for capital repair and improvement of general education schools, the programme for capital repair and improvement of cultural establishments, and a number of other externally financed programmes, have been presented in the medium-term expenditure frameworks of their respective sectors.

The sector currently faces the following problems:

- (i) Within the framework of the Earthquake Zone Rehabilitation programme implemented in 2002-2003, with the assistance of the United States International Development Agency, 660 families in Shirak and Lori regions, that were made homeless by the earthquake and are living in temporary accommodations, have been provided grants for the completion of the reconstruction of their houses. Around 2,150 families are still potential beneficiaries of such assistance.
- (ii) In the Republic of Armenia, the number of the III category damaged multi-apartment buildings total 753, of which 331 are in the earthquake zone.

- (iii) In the territory of the Republic, landslides have been widely observed, with their activity directly related to the seismic activity. Landslides have begun more frequent and widespread after the last disastrous earthquake in the region. There are over 3,000 known landslides in Armenia, covering an area of 700 square kilometres, of which 200 square kilometres is in inhabited localities and comprises 12.4% of their total area. According to the Emergency Department data, the average annual social-economic loss of the country due to landslides is US\$10 million.
- (iv) The territorial arrangement of the country, the master territorial plans or layout designs of the regions, the master plans of communities and a number of programmatic urban planning documents have not been defined. These would define reliability, natural environment protection, fire protection, sanitary-hygienic and other necessary norms, rules and standards, as well as designing, construction, operation and other conditions.
- (v) A number of specially protected natural areas and immovable monuments of history and culture are in a desperate condition, including the zone of the water-collection basin of the Hrazdan River.

#### **KEY EXPENDITURE PRIORITIES**

Urban planning, which is the basis for territorial arrangement and development, for distribution of the population, production forces and resources, for relations between localities and inter-locality areas, and for their build-up and layout design, covers the sectors of territorial planning, architecture, housing and communal services, construction and the construction industry, as well as protection from natural and man-made phenomena.

For meeting the obligations assumed by the Government, the main directions and priorities of urban planning policy over 2004-2006 will be as follows:

- (i) In sectors of territorial planning and architecture – formation of documentary base of urban planning, thus supporting the improvement of the investment attractiveness of localities and to the formation of the investment-construction market, to improvement of the normative and technical framework, as well as to implementation of the rehabilitation programme of historical towns.
- (ii) In the sector of housing and communal services – implementation of programmes for solving the housing problems of citizens made homeless by natural disasters, as well as the extension of programmes aimed at the maintenance of multi-apartment buildings identified for poverty reduction strategy purposes.

- (iii) In the sector of construction – completion of the Earthquake Zone Rehabilitation programme. Bearing in mind, that after completion of the programme in 2003, the earthquake zone is supposed to become a development zone, one of the main objectives of the Ministry has been implementation of the programme for realising that transformation.
- (iv) Implementation and development of the programme for anti-landslide and other priority activities, which in the future will contribute to assuring the security of the population living in areas of dangerous geological phenomena, as well as to assuring the safe use of houses and key infrastructure, including transportation and other communication infrastructure, and the improvement of the ecological situation.
- (v) Establishment of the unified framework of normative and technical documents relating to urban planning in the Republic of Armenia, organisation of the unified system of republican and inter-state normative and technical documents.

#### **EXPENDITURE DRIVERS**

Changes in demand within the framework of programmes implemented for meeting the obligations assumed by the Government will have an impact on expenditures planned for 2004-2006.

#### **EXPENDITURE ARREARS**

The following directions are prioritised over 2004-2006:

- (i) Elaboration of the territorial layout designs of the regions of the Republic of Armenia (ROA Law “On Urban Planning”), including:
  - Layout designs of Lori and Syunik regions – in 2004-2005;
  - Layout designs of Tavush and Ararat regions – in 2005-2006.

These designs will be based on Article 17 of the ROA Law No HO-217 “On Urban Planning”.

Territorial layout designs will be elaborated for groups or separate sections of administrative units of the Armenian regions. They will define the basic provisions and conditions for the purposeful utilisation and sustainable development of territories, preservation of historical and cultural monuments, as well as for the territorial arrangement of regions so as to provide a favourable living environment.

- (ii) Implementation of the programme for sustainable development of the zone of the water-collection basin of the Hrazdan River (ROA Law “On Specially Protected Natural Areas”, ROA Law “On Urban Planning”).

The main objective of the programme will be regulating the basic problems of the zone of the water-collection basin of the Hrazdan River, contributing to elimination of the impact of anthropogenic activities, restoration of social-economic potential, and recreation resources in the region. Expenditure on this programme will amount to 100 million drams over 2004-2006.

- (iii) Elaboration of the principal layout design of communities, within the framework of the Phased Programme (ROA Law “On Urban Planning”).

Within the framework of the “Phased Programme for Development of the Principal Layout Design of Inhabited Localities of the Republic of Armenia” (The Government’s Decree No 313 dated April 16, 2001), it has been envisaged to develop master plans or layout designs of inhabited localities.

Availability of the master layout design will support planning of the main directions of community development and to the development of relevant programmes, as well as to the introduction of investment programmes in communities.

The ROA Law “On Urban Planning” has defined the compulsory development of a single unified urban planning document for the community, that is, of the master layout design. The main purpose of that document will be, through territorial planning, creation of the necessary pre-requisites for formation of a favourable living environment and for sustainable development. This will involve expenditure of 360.5 million drams over 2004-2006.

- (iv) The proposed expenditure on development of the master plan or layout design of the territorial arrangement the Republic of Armenia for 2004-2006 is 40.8 million drams.

- (v) Implementation of the programme for urban planning rehabilitation of historical towns (ROA Law “On Preservation and Utilisation of Immovable Monuments of History and Culture, and of the Historical Environment”).

Under the sponsorship of the European Council, projects for rehabilitation of a number of towns of the Republic have been presented within the framework of the Armenian Regional Programme in the South Caucasus. Allocated expenditures are 100 million drams over 2004-2006, and the volume of external financing will be determined during discussions to be held in July.

- (vi) Assistance for solving the housing problems of homeless families in rural areas (the ROA Law “On Approving the Complex Programme for Rehabilitation of the Earthquake Zone”, the Order of the ROA President No NK-29-N dated May 17, 2003).

The proposed expenditure on this programme of 330.0 million drams will enable improvement of the housing conditions of around 110 families. The per-family amount of assistance has been determined at 3.0 million drams. This has been calculated on the basis of the forecasted averaged market price of apartments in the earthquake zone.

- (vii) Implementation of programmes for assisting maintenance of multi-apartment buildings (the ROA Laws “On Management of Multi-Apartment Building” and “On Condominiums”, the Government’s Decree No 86-A “On Assisting Management of Multi-Apartment Building” dated January 9, 2003).

Proposed expenditures on programmes for maintenance of multi-apartment buildings are 900.0 million drams. The expenditure forecast has been based on provisions of the ROA Laws “On Management of Multi-Apartment Building” and “On Condominiums”, as well as on the basic provisions of assisting the management of multi-apartment buildings, as defined by the Government’s Decree No 86-A dated January 9, 2003.

The main objective of this expenditure will be, through the management bodies of multi-apartment buildings, supporting socially vulnerable families to achieve state- defined norms of housing and for the safe use of buildings.

Within the framework of the programme, assistance will be provided to the management bodies established in multi-apartment buildings, for implementation of repair works (roof, internal systems, elevators, entrances, electrical supply system) as determined by the owners of buildings by the Government’s Decree No 1625-N dated October 10, 2002, assuring the owners’ compulsory participation in these works.

- (viii) Completion of the complex programme for rehabilitation of the earthquake zone (the ROA Law “On Approving the Complex Programme for Rehabilitation of the Earthquake Zone”.

It has been planned to complete the complex programme for rehabilitation of the earthquake zone, with a proposed budgetary allocation of 500 million drams in 2006. Moreover, receipts expected over 2004-2006 from privatisation of public

property will also be directed to financing the Earthquake Zone Rehabilitation Programme.

- (ix) Implementation of the programme for anti-landslide and other priority actions (the Government's Decree No 1074 "On Approving the Programme for Priority Anti-Landslide Actions in the Territory of the Republic of Armenia" dated November 7, 2001).

Implementation of activities has also been envisaged within the framework of the Government's Decree No 1074 "On Approving the Programme for Priority Anti-Landslide Actions in the Territory of the Republic of Armenia" dated November 7, 2001, as well as resolving problems exposed during the President's visits to the regions from January 21 to March 3, 2003.

The situation in all known landslide areas of the Republic has significantly – and in some cases, abruptly – worsened, becoming troublesome due to its unpredictability, and seriously threatening hundreds of dwelling houses, strategic and local important transportation avenues, and key infrastructure.

The proposed medium-term expenditure framework stipulates for implementation of work in the most urgent landslide areas in the country, as envisaged by the first phase of the framework.

Priority actions will be aimed at developing a consistent policy of protection from landslide phenomena, and establishing an administration system for organising and developing a system of routine observations (monitoring), which will enable the Government to:

- Implement ongoing monitoring of landslide processes;
- Make forecasts, by disclosing major factors of activation;
- Strengthen the justification of anti-landslide activities;
  - Implement mainly preventive actions targeted at, first of all, elimination or mitigation of the major factors;
- Evaluate efficiency of anti-landslide activities;
- Provide a timely alarm of potential danger.

Due to the complexity of anti-landslide and other actions, the programme will be implemented by phases, such as routine observations paralleled with initial examinations, exploratory works, and construction works. The proposed period for implementation of the complex programme will be 3 to 5 years (for each



activity). Financing for each year will be determined on the basis of the previous year's actual performance.

The expenditure allocated to this programme over 2004-2006 is 350.3 million drams.

Taking into consideration the scale of the landslide, flood and other processes, as well as the strategic importance of the issue, and lengthy nature of examinations, in particular, of routine observations, the programme will be mainly financed from the State Budget. Additional financial assistance will be provided through external loans, grants and other investments, for dealing with certain programme components. Efforts to attract external assistance have been initiated. In order to receive a grant for conducting examinations, a claim has been submitted to the Government of Japan in 2002.

(x) Elaboration of normative and technical documents (The Government's Decree No 351 "On Defining the Rules for Development and Approval of Urban Planning Normative-Technical Documents" dated May 26, 1999), including:

- Development of the ROA construction norms for "Catering Objects" – 2003-2004;
- Development of the ROA construction norms for "Hotels" – 2003-2004;
- Development of the ROA construction norms for "Buildings for General Education Purposes" – 2003-2004;
- Development of the ROA construction norms for "Fire Automated Mechanisms of Buildings and Accommodations" – 2003-2004;
- Development of the ROA construction norms for "Norm-Setting and Standardisation in Construction" – 2004;
- Development of the ROA construction norms for "Reinforced Concrete Slabs for Roofing Buildings in Seismic Zones" – 2004;
- Development of the ROA construction norms for "Engineering-Technical Devices for Buildings and Accommodations – Terms and Definitions" – 2004;
- Revision of the "Methodological Instructions for Technical Examination of Dwelling and Public Buildings" – 2004;
- Development of the "Rules for Evaluation of Urban Planning Normative-Technical Documents Development under State Order" – 2004;

- Development of the “Indexes and Standard Criteria for Zoning Plans” – 2004-2005;
- Development of the ROA construction norms for “Basements of Buildings and Accommodations” – 2004-2005;
- Development of the ROA construction norms for “Basic Requirements to Architectural-Construction Planning” – 2004-2005;
- Development of the “Technical Requirements to and Testing Methods of Concrete and Reinforced Concrete Constructions” – 2004-2005;
- Development of the “Manual for Designing Armenian Apostolic Churches” – 2004-2005;
- Development of the “Safety Requirements and Testing Methods of Concrete and Grouts” – 2004-2005;
- Development of the “Bulletin of Urban Planning Normative Legal Statements” – 2004-2006;
- Development of the “List of the Acting Urban Planning Normative-Technical Documents” – 2004 and 2006;
- Expert Examination of Inter-State Normative-Technical Documents – 2003-2006;
- Localisation and Signal-Copy Publication of Inter-State NTD-s, Signal-Copy Publication of Republican NTD-s – 2003-2006;
- Publication of Approved Urban Planning Programmatic Documents – 2004-2006;
- Development of the “Constructions and Construction Details of Buildings and Accommodations – Terms and Definitions” – 2005;
- Development of the ROA construction norms for “Concrete and Reinforced Concrete Constructions” – 2005-2006;
- Development of the ROA construction norms for “Loads and Effects” – 2005-2006;
- Development of the ROA construction norms manual for “Engineering-Geodesic Explorations” – 2005-2006;
- Development of the ROA construction norms manual for “Engineering-Ecological Explorations” – 2006;
- Development of the ROA construction norms manual for “Engineering-Hydro-Meteorological Explorations” – 2006;

- Development of the ROA construction norms manual for “Internal Water Supply and Sewerage Disposal of Buildings” – 2006;
- Development of the “Building Materials and Constructions – Terms and Definitions” – 2005-2006;
- Development of the “Technical Requirements to Constructional Pressurising, Polymeric Compression Materials and Products ” – 2005-2006;
- Development of the “Technical Requirements to Metallic Construction Elements” – 2005-2006;
- Development of the “Technical Requirements to and Testing Methods of Stone and Reinforced Stone Constructions” – 2005-2006;
- Development of the “Technical Requirements to and Testing Methods of Waterproof, Soundproof and Sound-Absorbent Materials” – 2005-2006;
- Development of the “Technical Requirements to Anti-Corrosive, Fire-Resistant, Radiation-Resistant and Other Protective Materials and Constructions” – 2005-2006;
- Development of the “Technical Requirements to and Testing Methods of Fire Security in Construction” – 2005-2006.

The need for elaborating construction norms has been substantiated by the inconsistency of the present construction norms with the seismic and climatic conditions of Armenia, as well as with the legislative framework.

Elaboration of technical regulations has been prioritised due to the membership of Armenia in the World Trade Organisation (The Prime Minister’s Decree No 852 dated December 22, 2000).

Due to the need for technical terms in Armenia, it is a priority to elaborate terms and definitions.

Zoning plans are meant to regulate the operation of the master layout designs, detailed layout and build-up designs of localities.

The priority of elaborating normative-technical documents is also driven by the need to attract investment to the economy.

The proposed expenditure in this area over 2004-2006 will amount to 227.7 million drams.

### Annex 15.1. Forecast of Expenditures in Urban Planning for 2004-2006 (Million Drams)

No	Titles of functional classification groups, sub-groups and programmes	2003	2004		2005		2006	
		<i>Planned</i>			<i>Forecast</i>			
		Capital Expenditures	Capital Expenditures	Percentage share in total expenditures	Capital Expenditures	Percentage share in total expenditures	Capital Expenditures	Percentage share in total expenditures
	<b>Total</b>	<b>5 148.6</b>	<b>902.2</b>	<b>100.0</b>	<b>965.9</b>	<b>100.0</b>	<b>1 485.9</b>	<b>100.0</b>
	<i>Percentage change, as compared with the previous year</i>		-82.5		7.1		53.8	
	<b>Earthquake Zone Rehabilitation and the programme for transforming the earthquake zone into development zone</b>	<b>4 955.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>500.0</b>	<b>33.6</b>
	<i>Percentage change, as compared with the previous year</i>		-100.0		0.0		100.0	
	<b>08 Housing and communal services</b>	<b>150.2</b>	<b>260.0</b>	<b>28.8</b>	<b>460.0</b>	<b>47.6</b>	<b>510.0</b>	<b>34.3</b>
	<i>Percentage change, as compared with the previous year</i>		73.1		76.9		10.9	
08.02	Housing services and house construction	150.2	260.0	28.8	460.0	47.6	510.0	34.3
	<i>Percentage change, as compared with the previous year</i>		73.1		76.9		10.9	
	Public assistance for solving housing problems of homeless families in rural areas_	60.0	60.0	6.7	60.0	6.2	210.0	14.1
	<i>Percentage change, as compared with the previous year</i>		0.0		0.0		250.0	
	Counterpart financing of programmes for assisting maintenance of multi-apartment buildings	90.2	200.0	22.2	400.0	41.4	300.0	20.2
	<i>Percentage change, as compared with the previous year</i>		121.7		100.0		-25.0	
	<b>11 Industry, minerals (except fuel), construction and natural environment protection</b>	<b>35.0</b>	<b>175.9</b>	<b>19.5</b>	<b>283.9</b>	<b>29.4</b>	<b>333.9</b>	<b>22.5</b>
	<i>Percentage change, as compared with the previous year</i>		402.6		61.4		17.6	
11.04	Designing-exploratory works	35.0	175.9	19.5	283.9	29.4	333.9	22.5
	<i>Percentage change, as compared with the previous year</i>		402.6		61.4		17.6	
	Elaboration of the principal design of territorial arrangement of Armenia	0.0	0.0	0.0	0.0	0.0	40.8	2.7
	<i>Percentage change, as compared with the previous year</i>		0.0		0.0		100.0	
	Elaboration of territorial layout designs of the regions of Armenia	0.0	0.0	0.0	83.2	8.6	81.5	5.5
	<i>Percentage change, as compared with the previous year</i>		0.0		100.0		-2.0	
	Elaboration of principal layout designs of communities	0.0	100.0	11.1	124.8	12.9	135.7	9.1
	<i>Percentage change, as compared with the previous year</i>		100.0		24.8		8.7	
	Elaboration of normative-technical documents, including:	35.0	75.9	8.4	75.9	7.9	75.9	5.1
	<i>Percentage change, as compared with the previous year</i>		116.9		0.0		0.0	
11.07	Other programmes	7.6	146.3	16.2	92.0	9.5	112.0	7.5
	<i>Percentage change, as compared with the previous year</i>		0.0		-37.1		21.7	
	Anti-landslide activities	7.6	146.3	16.2	92.0	9.5	112.0	7.5
	<i>Percentage change, as compared with the previous year</i>		1 825.0		-37.1		21.7	
	New programmes		0.0		0.0		0.0	
	Programme for sustainable development of the zone of water-collection basin of the Hrazdan River	0.0	0.0	0.0	60.0	6.2	0.0	0.0
	<i>Percentage change, as compared with the previous year</i>		0.0		100.0		-100.0	
	Program for urban planning rehabilitation of historical towns	0.0	0.0	0.0	70.0	7.2	30.0	2.0
	<i>Percentage change, as compared with the previous year</i>		0.0		100.0		-57.1	
	Rehabilitation of the III category damaged buildings	0.0	320.0	35.5	0.0	0.0	0.0	0.0
	<i>Percentage change, as compared with the previous year</i>		100.0		-100.0		0.0	

## REAL ESTATE CADASTRE

### SITUATIONAL OVERVIEW

The 2004-2006 medium-term expenditure framework in the real estate cadastre has been developed on the basis of the Constitution of the Republic of Armenia, of the Decree of the ROA Government dated June 17, 2003 "On Approving the Action Plan of the Government of the Republic of Armenia", as well as of other relevant legislative and legal statements.

#### Accounting

In communities where mapping works have been completed over 1997-2002, the real estate of 630,000 owners has been valued, and in the course of current activities, another 193,000 units of real estate will be valued.

Work to introduce the new accounting systems for compiling the stock of land balances, and updating it through the year, has started. The stock of land balances has been compiled in around 700 rural communities. The land stock has been classified according to its intended use, the type of land, and by the actual use of land. Buildings and accommodations have been categorised by the intended operational use of land.

For consistent and full-scale implementation of the accounting works, the process of collection, provision and exchange of information between public administration and local self-governance bodies has been regulated, along with the regulation of the accounting and categorising of unauthorised constructions.

#### *Mapping*

During 1998-2003, cadastral mapping works have been implemented in 864 rural communities and on 564.5 square kilometres of urban areas, in all regions of the Republic. For the same period, the available data has been digitised, and cadastral maps have been developed for 816 rural communities and for 474.2 square kilometres of urban areas, which have already been mapped.

In recent years, activities have been initiated for the development of cadastral, topographic, and thematic maps, the introduction of the system of registering geographic names, and the creation of an informational databank. In addition, the normative-technical framework of the sector has been normalised. The work to describe the administrative boundaries of communities, as well as for developing and updating topographic maps, has been initiated. In addition, the development of electronic maps has also started.

#### *Evaluation*

During 1997-2002, steps have been taken to establish property and land tax bases. For this purpose, in order to establish the property tax base for the 1999-2001 and 2002-2004 periods, 720,000 units of buildings and accommodations have been annually evaluated. In addition, in order to establish the land tax base for the 1997-2002 period, evaluation of around 1,200,000 units of land has been annually implemented. The resulting data has been submitted to the tax and local self-governance bodies. The development of evaluation land-cadastral maps, with adjustments for the quality characteristics of agricultural lands, has begun. Elaboration of the methodologies for zoning adjustment and evaluation of buildings and accommodations in Yerevan has also started.

Initial steps to introduce the automated system for real estate evaluation have been taken in around 120 communities of the Ararat and Armavir regions.

In two regions of the Republic, adjustments for the quality characteristics of agricultural lands have been implemented.

Based on market principles, effort has been made in the following directions:

- (i) Elaboration and introduction of the evaluation methodology for agricultural lands;
- (ii) Elaboration and introduction of the evaluation methodology for the land in inhabited localities, buildings, and accommodations;
- (iii) Elaboration and introduction of the evaluation methodology for industrial and public buildings and accommodations;
- (iv) Elaboration and introduction of the automated system of real estate evaluation, for tax purposes;
- (v) Development of evaluation land-cadastral maps, adjustment of the quality characteristics of agricultural lands;
- (vi) Elaboration of methodologies for zoning adjustment and evaluation of buildings and accommodations in Yerevan.

These activities will be completed by the end of the year, and results will be submitted for the Government's consideration in the form of annexes to the draft laws on land tax and property tax.

#### *Systematised Observations of Real Estate*

In order to develop evaluation methodologies, during the period of 1997-2002 systematised observations have been undertaken to identify the characteristics or factors that substantially influence the condition and price of agricultural and inhabited localities' lands, buildings and accommodations, as well as of adjustment coefficients in the model of market price formation. In certain communities, and in Yerevan, a pilot project of unified evaluation zoning has been implemented for formation of land and property tax bases. Observations of the real estate market have been conducted; monthly, quarterly, semi-annual, and annual reports have been generated and published on real estate transactions and their prices.

#### *Registration*

For the period of 1998-2002, around 678,590 title registration certificates have been registered and provided to the owners and users, of which 496,245 have been provided freely for lands that are being registered for the first time. Another 182,345 have been provided in the course of current activities, including 161,399 ownership, 10,914 collateral, and 10,032 leasing certificates.

The introduction of the automated registration system began in 2001.

*Establishment of the Real Estate Cadastre Informational Database*

Entering qualitative and quantitative data into the informational databank has commenced. This data concerns cadastral, topographic snapshot, and digital maps, including thematic ones, as well as real estate (land, buildings and accommodations), registered titles to real estate and limitations on them.

Repairs and restoration of cadastral files available in the system has also been undertaken, with their entry into computers, and establishment of an electronic archive of 954,183 cadastral files. Activities for creation, collection, classification, updating, exchange, and provision of registration documents of real estate, and of title to them, as well as of text and graphic materials have been regularised.

*Geodesic Works*

In November 2000, the sphere of geodesy has been transferred from the Ministry of Urban Planning to the State Committee of Real Estate of the Government of the Republic of Armenia.

Since that time, procedures for the implementation of activities for conducting a unified technical policy in the geodesy and mapping sector, the maintenance of the components of the state geodesic network, and the on-site supervision of geodesic and mapping activities have been developed in the Committee. The examination and research of constituent units of the country's state geodesic network started in 2001. The ROA Law "On Geodesy and Mapping" has been adopted in May 2, 2001. In the same year, the "Concept for Development of Geodesy and Mapping for the Period of 2002-2006" has been developed. The document has addressed development objectives and tasks of the state geodesy and mapping system, activities for establishment of the state geodesy system through application of GPS technologies, air and photo snapshot, for map development through digital (electronic) technologies, as well as normative-legal and normative-technical documents regulating the sector.

Activities have been initiated for establishment of 0, 1, and 2 category points in the world geodesic coordinate system WGS-84, and for introduction of modern photogrammetric devices.

National standards for geodesic and mapping activities have been elaborated.

*Land Construction*

The following programmes, targeted at planning and increasing the efficiency of land usage, are currently being implemented:

- (i) The adjustment and description of administrative boundaries of communities has started; during the current year, the boundaries of 325 communities will be described;
- (ii) On the basis of the Government's Decree No 93 dated February 2, 2002, the programme for separation of lands transferred to communities for ownership has been implemented. In the course of programme implementation, mapping material and accompanying documents will identify not only the land transferred to communities, but also the land not transferred to the citizens and legal entities, as prescribed by Article 60 of the ROA Land Code. The programme for 2002 has included 400 communities.
- (iii) In 2001, the pilot project for development of land use schemes has started for eight communities in Ararat, Armavir, and Kotayk regions. Within the project framework, an effort has also been made for developing land consolidation models in those communities, with the active participation of community members. The schemes will be presented to communities soon. As to land consolidation, additional communication with landowners is needed to achieve practical results.
- (iv) In 73 communities, and in Yerevan, 2,161.7 hectares of state-owned land has been disposed through heads of regional governments and through community leaders.
- (v) Interim land usage schemes for 150 communities have been submitted to the Government and approved by respective Decrees.

In the land construction sphere, it is planned to differentiate lands in Yerevan City, by its intended and actual use, to describe the administrative boundaries of communities in the country, to develop the concept for land construction development, as well as, at the regional level, to implement a pilot project of land zoning and usage schemes and of land consolidation.

*Collaboration with and Licensing of the Specialised Participants of the Real Estate Market*

Activities to retrain and license the specialised participants of the real estate market – realtors, market evaluators, and cadastral mappers – have been implemented.

*International Collaboration*

Since the day of its establishment, the State Committee of Real Estate of the Government of the Republic of Armenia has been closely collaborating with international organisations and similar foreign institutions. Thus, in 1997 collaboration with the



Spanish Registers' Board has been initiated. A number of specialists have received training within the framework of this co-operation. In 1999, contact has been made with the workgroup of available land management issues of the United Nations, and in November of the same year the Committee was elected a member of the Bureau of the organisation. The Committee has also been participating in, and collaborating with, the planners' board of the cadastre systems of the CIS and Baltic countries, with the planners' board of the geodesy sector of those countries, with the European Committee for global and regional geodesic networks (European Reference Framework), and with the Eurographics Association.

### **KEY EXPENDITURE PRIORITIES**

The main directions and priorities of the real estate cadastre development for 2004-2006 will be as follows:

(i) Introduction of a system for running the unified real estate cadastre, and assuring its efficient management:

- Introduction of an automated title registration system; introduction and management of a unified informational system for registered titles and limitations, as well as of qualitative and quantitative data. In 47 territorial divisions of the Real Estate Cadastre and in the informational centre, an automated system of title registration will be made available for users.
- Introduction of a new evaluation system for tax purposes, based on market mechanisms, and initiating work to switch to the unified real estate tax – for automating evaluations;
- Supporting development of the real estate market.

(ii) Improving efficiency of management in geodesy and mapping:

- Establishment of a digital fund of base maps of the state scale series (topographic, cadastral, thematic), based on the latest technologies;
- Introduction of photogrammetric methods, on the basis of satellite, air and over-ground snapshot technologies;
- Introduction of an automated system for accounting and registration of geographic names;
- Modernisation of the state geodesic planning and high-rise network, based on satellite technologies.

(iii) Formation of efficient systems for land construction and land resource management:

- Organisation and realisation of the new administrative division, and of the redistribution of available state-owned land;
- Improvement of the efficiency of available land management and land usage;
- Organisation and realisation of land consolidation programs;
- Improvement of auction mechanisms for disposal and use of public and community lands, support to formation of the land market.

## **PLANNED EXPENDITURES AND ANTICIPATED RESULTS**

Taking into consideration the main priorities and objectives of the sector, expenditure over 2004-2006, by priority directions, is summarized in Annex 15.2.

It is expected, that the programmes to be implemented (by sectors) will produce the following results:

### Accounting

- (i) The initial accounting of land in 17 urban and 54 rural communities, which are currently in the process of mapping, as well as the compilation of land reports;
- (ii) Generation and updating of initial registration data on territories outside the administrative boundaries of communities.

### Registration

- (i) Completion of the first-time state title registration works in 929 communities;
- (ii) Elaboration of a new system for registration of movable property collateral, mortgage, and financial leasing, based on Internet technologies and enabling outside users (mainly. commercial banks) to make real time (on-line) registrations, and to obtain the necessary information.

### Mapping

- (i) Base topographic maps of 1:10000 scale (digital and traditional) of the whole territory of Armenia, orthophotographic maps of 1:2000 scale of Yerevan City, new air photographs of the territory of Armenia and high-resolution space photographs for the next-to-frontier and high mountainous areas;
- (ii) Topographic maps of the state scale series from 1:25 000 to 1:1 000000, produced by means of generalisation of topographic digital maps of the 1:10000 scale, in chamber conditions;
- (iii) Digital cadastral maps for the whole territory of Armenia – 929 communities;
- (iv) Automation of the current card index of geographic names of Armenia;
- (v) Armenian National Atlas and a variety of thematic maps in Armenian;

- (vi) Technologies and specialists needed for data processing, for developing and storing base maps from digital air and space photography materials, and for development of orthophotographic maps;
- (vii) Knowledge and specialists needed for updating and storing cadastral data by using air and space photography materials; as well as for its application in planning land usage, agricultural, natural environment protection, environmental and other important purposes.

The produced mapping materials will enable implementation of the following works:

- (i) Running the real estate cadastre;
- (ii) Adjustment of data of land tax and property tax bases;
- (iii) Works for description and fortification of the state frontiers and boundaries of administrative units (regions, communities) of Armenia;
- (iv) Compilation of the land balances by administrative-territorial units;
- (v) Compilation of community land usage schemes;
- (vi) Evaluation and monitoring of agricultural plots;
- (vii) Maintaining the on-duty map of the territory of Armenia;
- (viii) Maintaining the geological-informational system of Armenia;
- (ix) Programming and settlement of urban planning, natural environment protection and territorial administration issues;
- (x) Settlement of other economic and public issues.

#### Geodesy

- (i) Continuation of the establishment of a new geodesic network within the world geodesic coordinate system WGS-84, which will result in formation of the national geodesic network with the following structure: 5 points of 0 category, 40 points of the 1<sup>st</sup> category, and 761 points of the 3<sup>rd</sup> category. The introduced network will enable handling any scientific, economic and defence issues in relation to the geodesy profession;
- (ii) Implementation of boundary fortification works of administrative units in 300 communities.

#### Automation

- (i) Planning, introduction and maintenance of an automated system for land evaluation, real estate systematised observations and market analysis;
- (ii) Planning, introduction and maintenance of an automated system for geographic names;
- (iii) Planning, introduction, and maintenance of a geologic-informational system.

Evaluation and Monitoring

- (i) Systematised observations of land, buildings, and accommodations, as well as of the real estate market, to support the introduction of a new system of real estate evaluation;
- (ii) Implementation of activities for evaluating agricultural land inside the administrative boundaries of the communities of Armenia;
- (iii) Implementation of activities for evaluating agricultural land outside the administrative boundaries of the communities of Armenia;
- (iv) Implementation of cadastral evaluation of real estate, including land, and for establishing property and land tax bases;
- (v) Regulation of the evaluation profession, differentiation of powers between public and private sectors;
- (vi) Public awareness.

Land Construction

- (i) Introduction and development of an automated system of title registration in 47 territorial divisions of the system, maintenance of the informational databank;
- (ii) The state-owned land within the administrative territory of all communities in the Republic freely passed to communities for ownership, which will enable them to act as full participants in land relationships;
- (iii) Completion of the description of administrative boundaries of all 929 communities of the country, in parallel redefining the administrative boundaries so as to redistribute land between communities;
- (iv) Implementation of a pilot project of land consolidation in three communities, which will enable the enlargement of land plots, thus making their usage more efficient and favourable for investments.

External Financial Assistance

For 2004-2006, financial assistance has been envisaged under the following programmes:

- (i) “Development of the Cadastral System in Armenia” programme of the Swedish Development Agency:
  - Assistance in geodesy;
  - Assistance in land evaluation;
  - Assistance in land consolidation;
  - Assistance in registration automation;
  - Training.

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- (ii) “Land Consolidation Pilot Programme”, financed by the grant of the Food and Agriculture Organisation of the United Nations:
- Compilation of the consolidation pilot programme;
  - Elaboration of consolidation mechanisms;
  - Implementation of the programme in one community.
- (iii) “Co-operation Programme”, financed by the European Community;
- Elaboration of an integrated programme for land resource management in a pilot area;
  - Alignment of the land resource management system of Armenia with the systems of the countries of the European Community.

**Annex 15.2. Forecast Expenditures in Real Estate Cadastre for 2004-2006 (Million Drams)**

Actions	2004		2005		2006	
	Current Expenditure	Capital Expenditure	Current Expenditure	Capital Expenditure	Current Expenditure	Capital Expenditure
<b>Accounting</b>						
Compiling lists of the stock of land in 17 urban and 54 rural communities, which are currently being mapped, as well as the compilation of land reports	0.0	10.0	0.0	0.0	0.0	0.0
Generation and updating of initial registration data on territories outside the administrative boundaries of communities	0.0	0.0	0.0	20.0	0.0	0.0
<b>Registration</b>						
Initial registration of land, provision of ownership certificates	0.0	149.0	0.0	73.4	0.0	10.1
Provision of information to the unified state cadastre of real estate	0.0	30.0	0.0	30.0	0.0	30.0
Registration of movable property collateral, mortgage, and financial leasing	0.0	10.0	0.0	0.0	0.0	0.0
<b>Mapping</b>						
Development of base maps of the state scale series, air and space snapshots, photogrametric processing	0.0	315.0	0.0	195.0	0.0	75.0
Cadastral mapping (outside the administrative boundaries of communities)	0.0	220.0	0.0	120.0	0.0	0.0
Digitisation of the mapped units	0.0	23.0	0.0	27.0	0.0	10.0
Accounting and registration of geographic names	0.0	12.0	0.0	3.0	0.0	0.0
Thematic mapping, including the Armenian National Atlas	0.0	64.0	0.0	43.0	0.0	0.0
<b>Geodesy</b>						
Continuation of the works for establishment of a new geodesic network within the world geodesic coordinate system WGS-84	0.0	170.0	0.0	201.0	0.0	103.0
Implementation of boundary fortification works of administrative units	0.0	0.0	0.0	64.0	0.0	32.0
<b>Introduction of automated cadastral system</b>						
Introduction and development of an automated system for running the real estate cadastre, maintenance of the informational databank	0.0	207.5	0.0	297.5	0.0	170.0
Planning, introduction and maintenance of an automated system for geographic names	0.0	7.5	0.0	15.0	0.0	7.5
Planning, introduction, and maintenance of a geologic-informational system	0.0	5.0	0.0	50.0	0.0	5.0
Design and elaboration of an automated system for land evaluation, systematised observations of real estate, and for analysing the real estate market	0.0	30.0	0.0	25.0	0.0	15.0
<b>Cadastral evaluation and systematised observations of real estate</b>						
Systematised observations of land, buildings, and accommodations on it, as well as of the real estate market, for introducing a new system of real estate evaluation	0.0	30.0	0.0	30.0	0.0	30.0
Implementation of works for evaluating agricultural land inside the administrative boundaries of communities of Armenia	0.0	62.0	0.0	0.0	0.0	0.0
Implementation of works for evaluating agricultural land outside the administrative boundaries of communities of Armenia	0.0	25.0	0.0	70.0	0.0	55.0
Implementation of works for cadastral evaluation of real estate, including land, for establishing property and land tax bases	0.0	60.0	0.0	40.0	0.0	40.0
Regularisation of the evaluation profession, differentiation of powers between public and private sectors	0.0	0.0	0.0	0.0	0.0	5.0
<b>Public awareness</b>						
	0.0	10.0	0.0	10.0	0.0	10.0
<b>Land construction</b>						

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<b>Actions</b>	<b>2004</b>		<b>2005</b>		<b>2006</b>	
Works for planning and implementation of land consolidation	0.0	0.0	0.0	20.0	0.0	20.0
Description of boundaries of administrative-territorial units; organization and realization of the new administrative division	0.0	110.0	0.0	175.0	0.0	54.2
<b>Total</b>	0.0	1 550.0	0.0	1 508.9	0.0	671.8

## **STATISTICS**

According to the ROA Law “On State Statistics”, the National Statistical Service of the Republic of Armenia, as a state body acting for public benefit, is responsible for organising statistical data on phenomena, processes and their results in the economy and society, as well as for providing summarised statistical data to the public administration and local self-governance bodies, legal entities, state enterprises, international organisations, and to the public.

### **KEY EXPENDITURE OBJECTIVES AND PRIORITIES**

The key priorities for state statistics over 2004-2006 will as follows:

- (i) Extension of the co-operation and sharing of information between the providers of statistical data, simultaneously switching to sampling methods of data collection;
- (ii) Improving timeliness of data preparation, through utilisation of modern collection means and methods (including introduction and application of informational technologies);
- (iii) In parallel with developing statistical methodology and running consolidated indexes, review of the composition and contents of indicators disclosed in statistical documents;
- (iv) Expansion of the structure and composition of statistical publications (bulletins, reports, collections), and modernisation of data propagation methods, so as to meet the needs of consumers (users) of statistical data in a comprehensive and timely way;
- (v) Assuring application of international standards for data propagation (in particular, participation in the “Special Standard for Data Propagation” elaborated by the IMF);
- (vi) Development of statistical databases; in particular, regular (at least, annual) updating of the business register database, as well as the formation and running of branch and territorial registers;
- (vii) Introduction and maintaining administrative registers (also through introduction of community certificates);
- (viii) Broadening of data coverage within the framework of international collaboration, increasing the frequency and quantity of statistical research;
- (ix) Modernisation of the local computer network of the NSS, incorporation of network resources and establishment of a corporate network;

- (x) Generation of the basic database of statistical data, which includes all statistical indicators produced by the NSS.

### **EXPENDITURE DRIVERS**

The main factors impacting on expenditure on state statistics over 2004-2006, are as follows:

- (i) The increase in wages of top officials and civil servants introduced on July 1, 2003;
- (ii) The increase in the volume of activities, due to the expansion of the statistical sector;
- (iii) The additional activities created by the implementation and monitoring of the Poverty Reduction Strategy, given its crucial importance to the country's development.

### **PLANNED EXPENDITURES**

Taking into consideration the main activities and priorities for the strategic development of the statistic section, as defined by the triennial programmes<sup>18</sup> for state statistical works adopted by the National Assembly, and, on the basis of that, the specific activities disclosed in annual programmes of state statistical works approved by the State Board of Statistics, allocations to the sector will be<sup>19</sup> 506.2 million drams in 2004, 531.7 million drams in 2005, and 550.1 million drams in 2006.

This budget allocation has been based on the volume of activities to be implemented both within statistical programmes (which, in many respects, have been driven by the need to introduce and apply internationally recommended (guaranteed) methodologies), and within the framework of the obligations assumed by the Government in international treaties and agreements.

In addition to the above, taking into account the need to provide diversified and detailed statistical data for implementation and efficient monitoring of the activities stipulated by the Poverty Reduction Strategy Paper, the additional – excluding the aforementioned allocations – need for financing for the National Statistical Service is 29.5 million drams in 2004 (including 25.5 million drams for current expenditures, and 4 million drams for capital expenditures), 24.3 million drams in 2005, and 25.2 million drams in 2006.

Expenditure on state statistics, as stipulated by the medium-term expenditure framework, is summarised in Annex 15.3.

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<sup>18</sup> The National Assembly has adopted the ROA Law “On 2001-2003 Triennial Programme for State Statistical Works” on March 13, 2001. The draft ROA Law “On 2004-2006 Triennial Programme for State Statistical Works” is currently under development.

<sup>19</sup> Only current expenditures have been planned.



**Annex 15.3. Forecast of Expenditure in State Statistics for 2004-2006 (Million Drams)**

No	Titles of functional classification groups, sub-groups and programmes	2003			2004			2005			2006		
		<i>Planned</i>			<i>Forecast</i>								
		Cur-rent	Capital	Total	Cur-rent	Capital	Total	Cur-rent	Capital	Total	Cur-rent	Capital	Total
01.07.	Maintenance of republican and territorial administration bodies of public governance	253.2	0.0	253.2	327.6	0.0	327.6	351.6	0.0	351.6	370.1	0.0	370.1
01.07.	Collection of state statistical data	175.1	6.6	181.7	204.1	4.0	208.1	204.4	0.0	204.4	205.3	0.0	205.3
01.07.	Processing, summarising and publication of the Census 2001 materials	65.4	0.0	65.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<b>Total</b>	493.7	6.6	500.3	531.7	4.0	535.7	556.0	0.0	556.0	575.3	0.0	575.3
	<i>Of which, new programmes represent</i>				25.5	4.0	29.5	24.3	0.0	24.3	25.2	0.0	25.2